
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number 001-38159

British American Tobacco p.l.c.

(Exact name of Registrant as specified in its charter)

(Translation of Registrant's name into English)

England and Wales
(Jurisdiction of incorporation or organization)

Globe House, 4 Temple Place, London WC2R 2PG, United Kingdom
(Address of principal executive offices)

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Globe House, 4 Temple Place, London WC2R 2PG, United Kingdom
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Trading symbol(s)	Name of each exchange on which registered
American Depositary Shares (evidenced by American Depositary Receipts) each representing one ordinary share	BTI	New York Stock Exchange
Ordinary shares, nominal value 25 pence per share	BTI	New York Stock Exchange*
1.668% Notes due 2026	BTI26A	New York Stock Exchange
2.259% Notes due 2028	BTI28	New York Stock Exchange
2.726% Notes due 2031	BTI31	New York Stock Exchange
3.734% Notes due 2040	BTI40	New York Stock Exchange
3.984% Notes due 2050	BTI50A	New York Stock Exchange
4.700% Notes due 2027	BTI27A	New York Stock Exchange
4.906% Notes due 2030	BTI30	New York Stock Exchange
5.282% Notes due 2050	BTI50	New York Stock Exchange
2.789% Notes due 2024	BTI24	New York Stock Exchange
3.215% Notes due 2026	BTI26	New York Stock Exchange
3.462% Notes due 2029	BTI29	New York Stock Exchange
4.758% Notes due 2049	BTI49	New York Stock Exchange
2.764% Notes due 2022	BTI22	New York Stock Exchange
3.222% Notes due 2024	BTI24A	New York Stock Exchange
3.557% Notes due 2027	BTI27	New York Stock Exchange
4.390% Notes due 2037	BTI37	New York Stock Exchange
4.540% Notes due 2047	BTI47	New York Stock Exchange
Floating Rate Notes due 2022	BTI22A	New York Stock Exchange

* Application made for registration purposes only, not for trading, and only in connection with the registration of the American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report.

2,456,591,597 ordinary shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with US GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13 (a) of the Exchange Act.

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

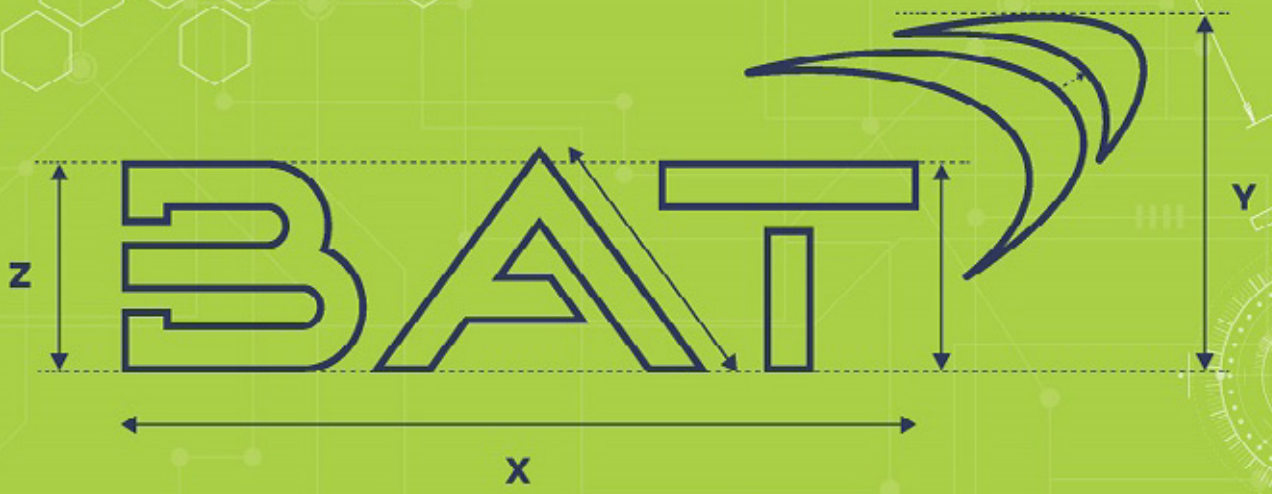
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

For the forward-looking non-GAAP information contained in this Annual Report on Form 20-F, no comparable GAAP or IFRS information is available on a forward-looking basis, as the effect of adjusting items and rates of exchange, which could be significant, may be highly variable and cannot be estimated with reasonable certainty. In addition, other components of the Group's results, including the revenue generated from combustibles, cannot be estimated with reasonable certainty due to, among other things, the impact of foreign exchange, pricing and volume, which could be significant, being highly variable. As such, no reconciliations for this forward-looking non-GAAP information are available and we are unable to: present revenue before New Category revenue.



Building the Enterprise of the Future

Annual Report and Form 20-F 2020





30%

Of our direct energy from renewable sources



>35%

Reduce the total amount of water withdrawn from our 2017 baseline



100%

Of plastic packaging to be reusable, recyclable or compostable



> 30%

Reduce our absolute Scope 1 and Scope 2 CO₂e emissions from our 2017 baseline



Ambitious Environmental Targets

2025 2030

Carbon Neutrality Target





Ambitious Business Goals

New Category Revenue

Target of £5bn

2025

2030

Target of 50mn

Consumers of

Non-Combustible

Products







Our Purpose

To reduce the **health impact** of our business by offering a **greater choice** of enjoyable and **less risky** products

We are clear that combustible cigarettes pose serious health risks. The only way to avoid these risks is not to start or to quit. However, we encourage those who would otherwise continue to smoke to switch completely to scientifically-substantiated, reduced-risk alternatives.*†

In order to deliver this, BAT is transforming into a truly consumer-centric multi-category consumer products business.



* 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.

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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.

www.bat.com/reporting

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. 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 'u' 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 and our Committee reports. The Directors' Report on pages 89 to 116 (the Governance pages) 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 Depository 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. 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.

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.

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 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



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.”

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.

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.

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

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).

“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 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.”

“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%). The Group realised £9.8 billion (2019: £9.0 billion) of net cash generated from operating activities.

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.

Confidence in Future Delivery

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



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 (%)			+3.3%		+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)		331.7	+2.4%	323.8	+9.1%	296.7	●	●
Change in Adjusted Diluted Earnings per Share at cc (%)			+5.5%		+8.4%		●	●
Dividends per Share (p)		215.6	+2.5%	210.4	+3.6%	203.0		
Dividend Pay-Out Ratio (%)		65%		65%		68%		
Net Cash Generated from Operating Activities (£m)		9,786	+8.8%	8,996	-12.6%	10,295	●	
Cash Conversion (%)		98%		100%		111%	●	
Borrowings, including Lease Liabilities (£m)		43,968	-3.1%	45,366	-4.5%	47,509	●	
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	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.

* 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.

50mn
Non-Combustible product consumers targeted by 2030

1.1bn
consumers in global combustibles market to convert to reduced-risk products*†

10%
Group revenue from Non-Combustibles

£5bn
New Categories revenue targeted by 2025

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.

19th
consecutive year in the Dow-Jones Sustainability Indices

A-List
member of CDP Climate A-List

100%
of plastic packaging to be reuseable, recyclable or compostable by 2025

Carbon Neutral
operations by 2030

* 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.

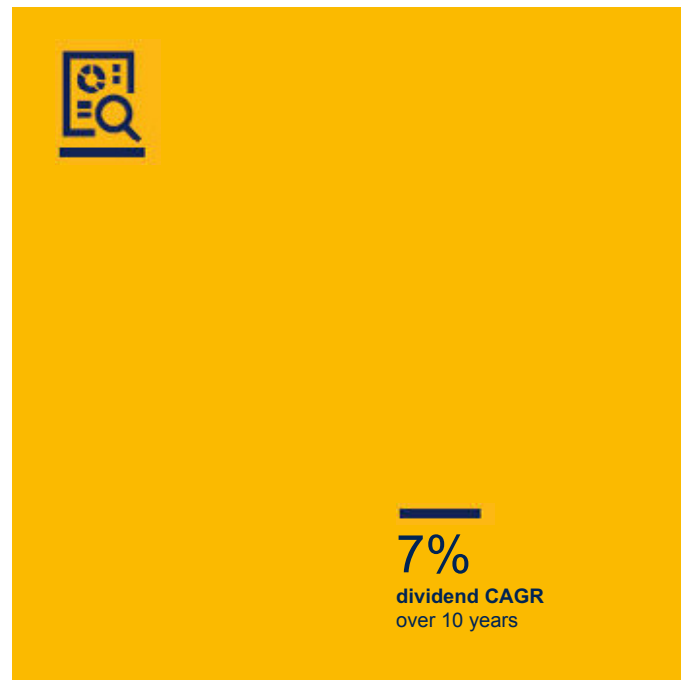
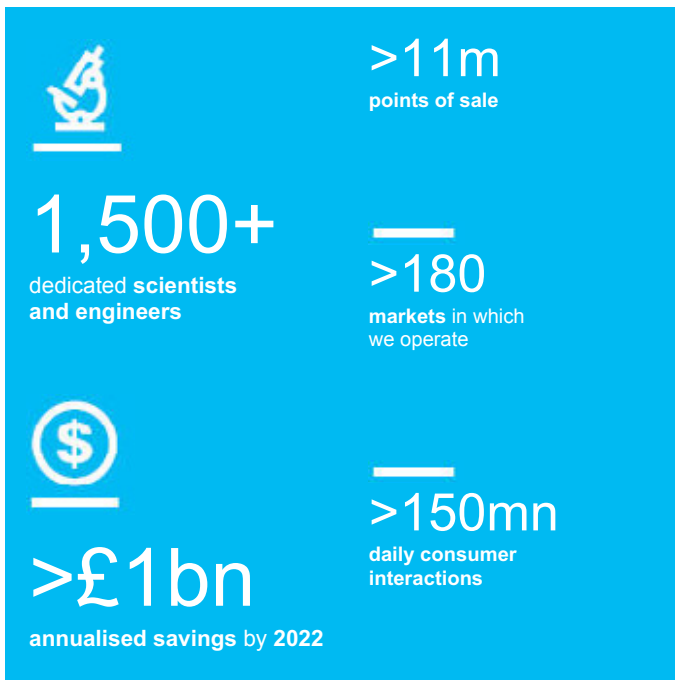
Our three global New Category brands leverage the benefits of our world-class R&D and our manufacturing, distribution, marketing and brand building capabilities, which are supported by our unrivalled global footprint across 180 markets, with 11 million points of sale, reaching 150 million consumers daily.

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.



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.



* 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.

Mega trend

Digital Technology



Smart Technology

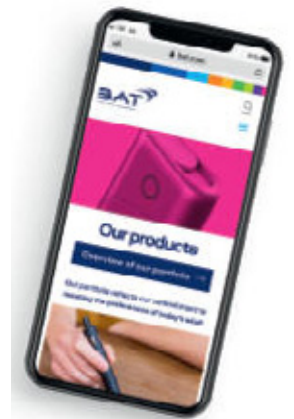
Smart electronic devices and social media have increasingly become integral to people’s lives and daily routines. They have enabled greater access to new platforms and have enhanced the way people consume news, make connections and shop.

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.



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.

† 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.

** 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

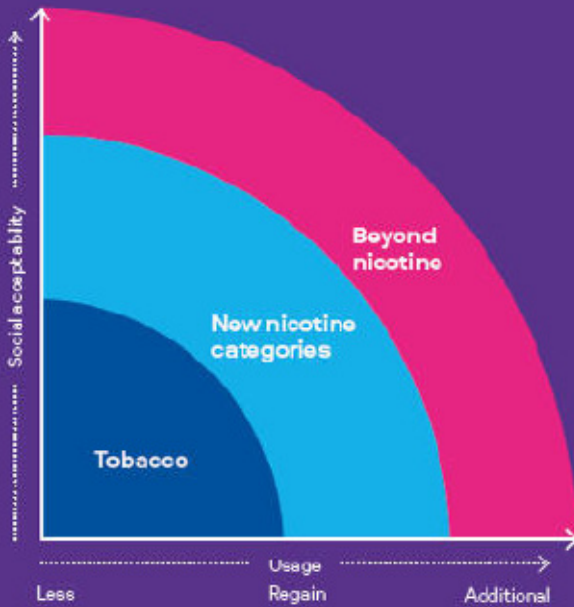
combustible products fulfilled a multitude of consumer moments



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.

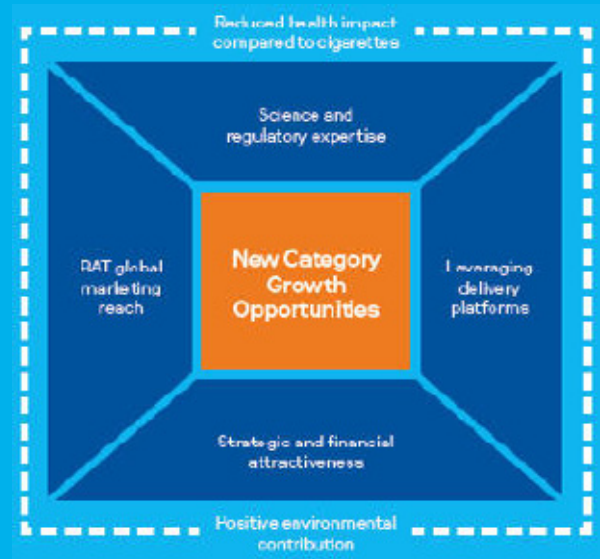
A Developing Portfolio



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.

* 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



“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



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. 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

2. 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

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:

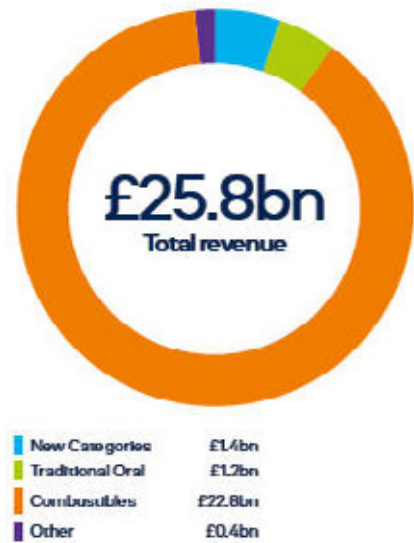
Non-Combustibles

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



* 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 Reduced-Risk Portfolio (Non-Combustibles)[†]

New Categories

Vapour

Handheld, battery-powered devices that heat a liquid (called an e-liquid, usually containing nicotine) and create 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

Cigarettes

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.



27

markets where our vape 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



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.

United States of America

USA

Americas and Sub-Saharan Africa

AmSSA

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.



Revenue by region



“ 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





Zafar Khan
Director, Operations

“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.”

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.

- 180+ markets
- 150mn consumers
- 13.5mn non-combustible product consumers
- 55,000+ employees
- 139 nationalities
- 40+ toxicologists
- 1,500+ R&D specialists

“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



“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 credit rating is not a recommendation to buy, sell or hold securities. A credit rating may be subject to withdrawal or revision at any time. Each rating should be evaluated separately of any other rating.



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
- 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

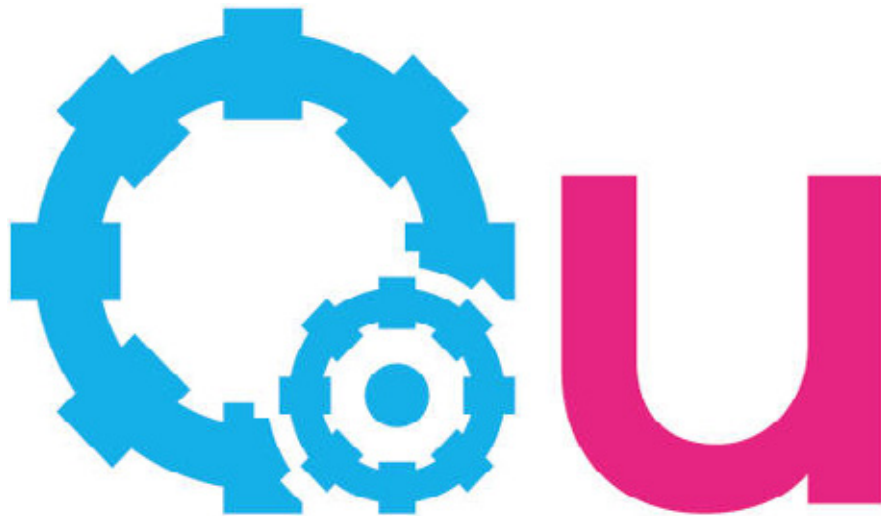
Further details of our Group policies and principles can be found at www.bat.com



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](#)



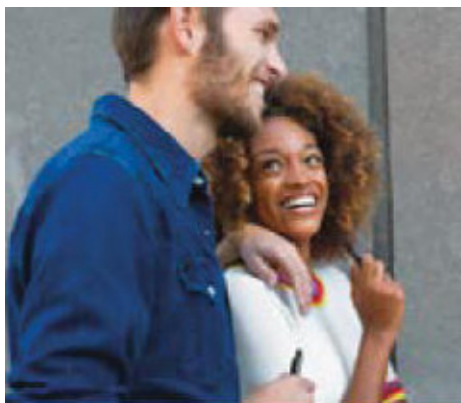
Strategic Management

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



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.†

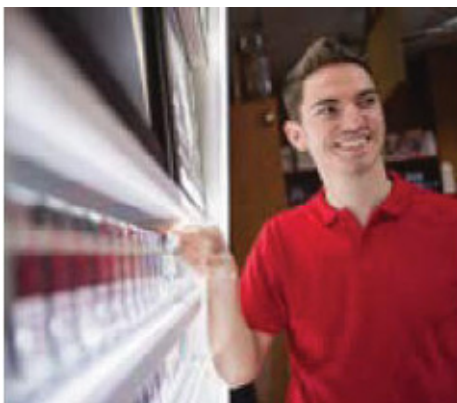
We are clear that any portfolio expansion will leverage our strengths. We will maximise and seek to constantly improve our delivery platforms in Vapour, THP and Modern Oral, reducing the health impact and making a positive environmental contribution.

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.



Drive Value From Combustibles



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.



Simplify the Business



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.



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.

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.

Our multi-disciplinary risk assessment framework



How do people use the product?
 We observe how consumers use the products to help us replicate this in the lab. The results help us ensure that we test the products in a realistic way.

What's in the vapour/aerosol?
 We look at what toxicants are in the vapour/aerosol and the air in which our products are used. We compare the results to what is in cigarette smoke.

What does the vapour/aerosol do to human cells in the lab?
 We compare this to the impact that cigarette smoke has on human cells.

How does using the product impact the human body?
 This involves studying real consumers – for example, by taking blood or urine samples – to understand what using these products might mean for health.

How might the product affect population health?
 We use a computer modelling approach to predict the impact that the availability of such products will have on the health of a population.

* 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.* †

<p>Product development and innovation</p> <p>using scientific advances and new technologies to satisfy evolving consumer needs and preferences.</p>		<p>Scientific evaluation of risk reduction</p> <p>to support evidence-based regulation and provide consumers with the information they need to make informed decisions.</p>
<p>Product stewardship</p> <p>to ensure quality and consumer safety based on robust science and toxicological risk assessments.</p>		<p>Collaborative development of product standards</p> <p>to ensure a consistent approach to product quality and safety across the industry and build consumer confidence.</p>

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.





Vapour

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.





THP

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

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.



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



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.

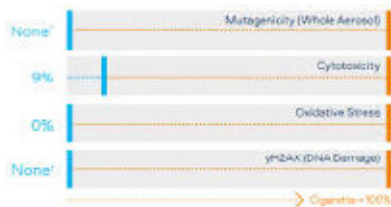
The Royal Society for Public Health – 2018



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.

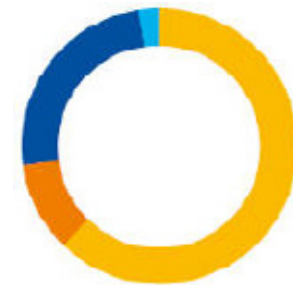
In January 2021, we have pilot-launched our first CBD vaping product, Vuse CBD Zone. This latest innovation will allow us, for the first time, to offer adult consumers a range of high-quality CBD vaping products from our trusted, global brand, Vuse. Initially available in Manchester, UK, it will offer 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	363	207
AmSSA	65	43
ENA	146	147
APME	15	4
Total	611	401

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.
- Further market rollouts and strong innovation pipeline driving good momentum into 2021.

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%.

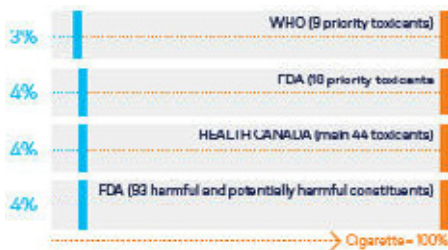
Our latest clinical trials are the first-ever of their kind to demonstrate reduced risk of Tobacco Heating Products. The results showed switching completely to glo crossed the biologically significant threshold, and marker profiles were similar to cessation.

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

Toxicants of interest Cigarette vs glo



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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.

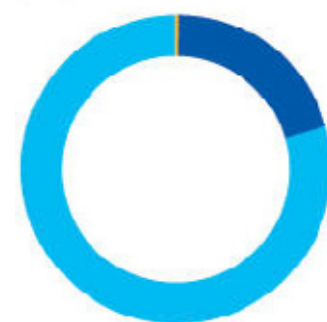
In Japan, following the launch of glo Hyper, glo’s total volume share grew 85 bps to achieve a volume share of 5.9% of total nicotine, (up from 5.0% in December 2019), being a category volume share of THP of 19.4% (2019: 19.6%). Temporary revenue weakness was driven by the withdrawal of glo Sens and 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.

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	720




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.

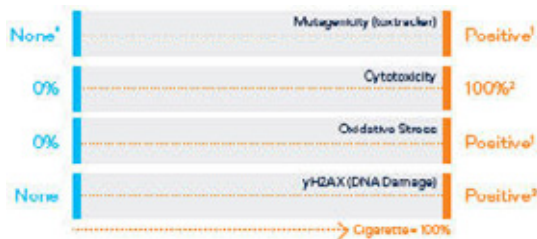
Smokeless tobacco products are much cleaner and less hazardous than cigarettes. Their use could reduce harm to smokers if they switched entirely to these products.

Professor Neal Benowitz
Professor of Medicine at the University of California, San Francisco


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

Toxicology tests
Cigarette vs Velo



1. Toxtracker assay (rtkn and bscl2).
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.

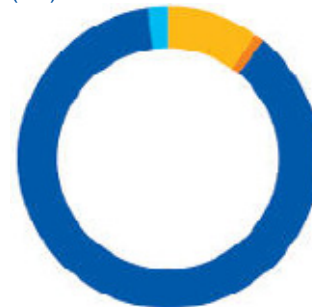
Pilot schemes in emerging markets are ongoing with initial encouraging results in Pakistan and Indonesia. In Kenya, we have temporarily suspended sales due to local regulatory challenges and continue to engage with the local authorities.

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.

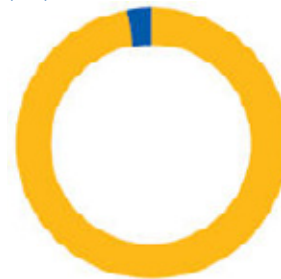
Performance summary

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	9,026	9,078
Am/SSA	3,535	3,992
ENA	5,356	5,544
APME	3,935	4,307
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)

+20bps



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).



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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™

	ESG issue	Our goals	Progress in 2020
<p>H</p>	<p>Reducing the HEALTH impact of our business</p>	<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
<p>E</p>	<p>Excellence in ENVIRONMENTAL management</p> <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
<p>S</p>	<p>Delivering a positive SOCIAL impact</p> <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
<p>G</p>	<p>Robust corporate GOVERNANCE</p> <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 Y&P 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.

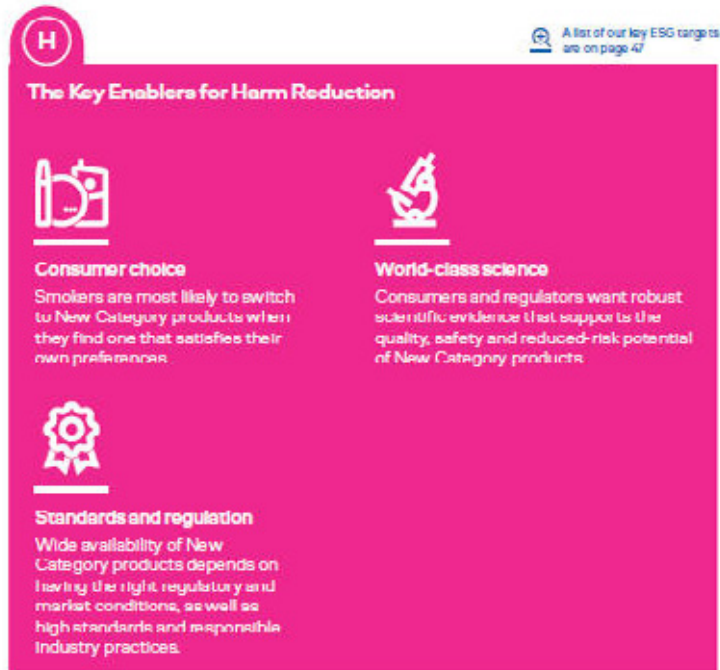
Notes:

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.



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.](#)

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.

* 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

	<p>1. An evidence-based approach allowing robust science to lead to greater consumer choice, quality and confidence.</p>
	<p>2. Proportionate regulation where science-based evidence and risk are understood and differentiated to guide regulatory policy.</p>
	<p>3. Freedom to Innovate to ensure products can evolve to meet changing consumer preferences.</p>
	<p>4. Engagement, dialogue and communication to ensure regulators and consumers can make well-informed decisions.</p>
	<p>5. Responsible marketing freedoms that facilitate the acceleration of movement of consumers from combustible to non-combustible products.</p>



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.



 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.



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.



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 efficiency across the value chain. We aim to reduce the total amount of water we withdraw for our own business activities by 35% 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.

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.

1. 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. 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.

3. 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:

4. 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.

5. 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.

CO₂e emissions

(in '000 tonnes)

541

37.4% lower than 2017 baseline

2020	541	-30.9%
2019	782	-7.0%
2018	841	-27%

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.

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.

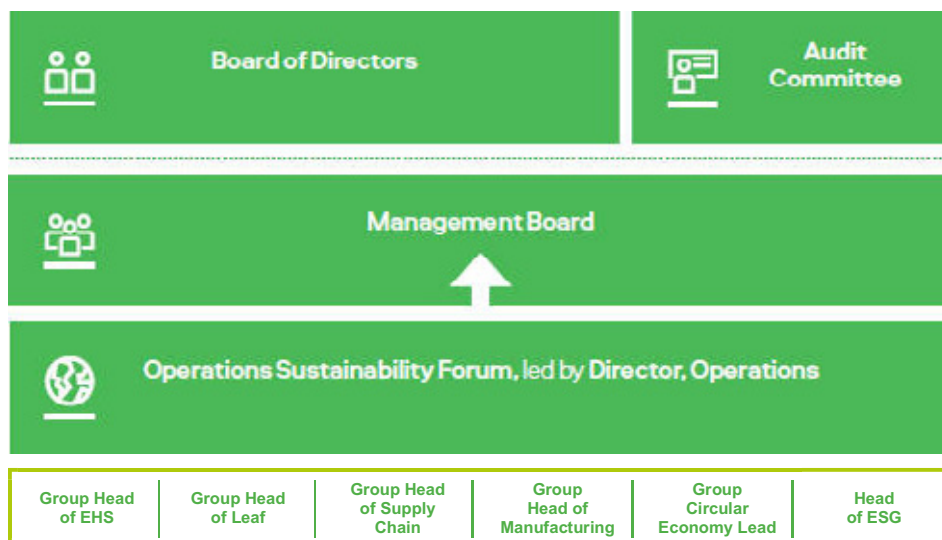
Meeting our ambitious climate targets will require collective effort across the Group and, given our Scope 3 emissions represent around 90% of our total carbon footprint, addressing impacts in our supply chain is also crucial.

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.

- 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.

- 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.

- 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.

- 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.



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.



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.



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.



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%.



A list of our key ESG targets are on page 47

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.

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.



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.



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.



A list of our key ESG targets are on page 47



Regulation and Policy Engagement

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


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.

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.



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:

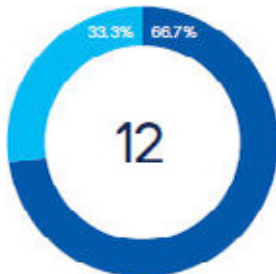
Representation of women on senior leadership teams was 26% in 2018, 27% in 2019, and 27% in 2020.

Senior managers: Companies Act 2006

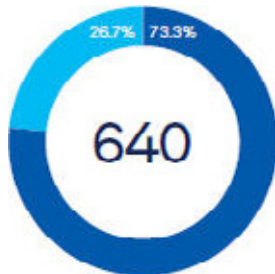
For the purposes of disclosure under Section 414C(8) of the Companies Act 2006, the Group had 167 male and 46 female senior managers as at 31 December 2020. Senior managers are defined here as the members of the Management Board (excluding the Executive Directors) and the Directors of the Group's principal 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

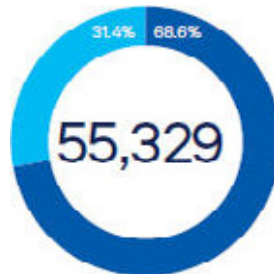
Main Board



Senior Leadership Teams



Total Group Employees



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

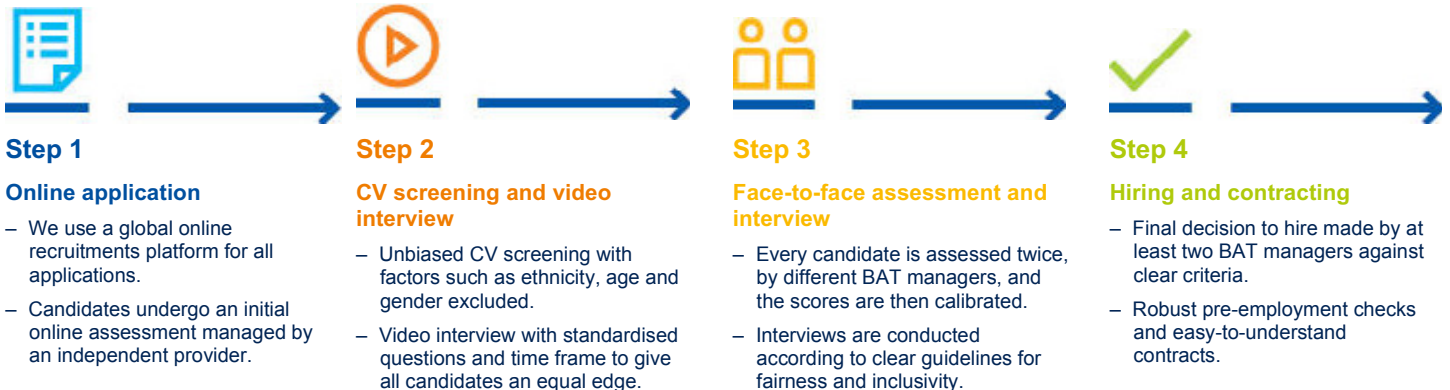
Rewarding People

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.



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 and adjusted diluted earnings per share. 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

Profit from operations (£m)

£9,962m

+10.5%



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 (£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).

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

+4.8%



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.

Diluted earnings per share (EPS) (p)

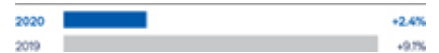
278.9p
+12.0%



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.

Change in adjusted diluted EPS (%)

+2.4%



Definition: Change in diluted earnings per share before the impact of adjusting items.

Change in adjusted diluted EPS at constant rates (%)

+5.5%



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). 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.

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.

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)

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).

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.



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.

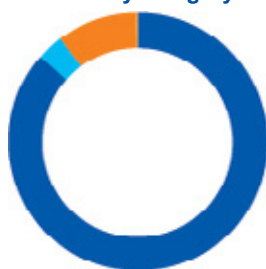
Revenue

	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

Cigarette value
share change

7

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

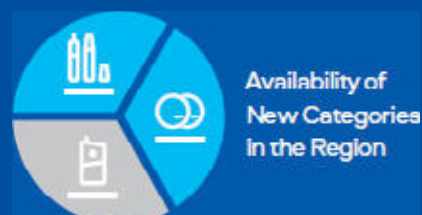
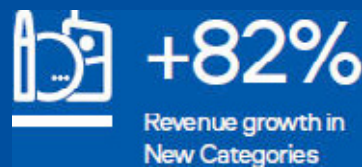
Traditional Oral revenue grew 7.0% (or 7.6% at constant rates of exchange), driven by strong pricing in both years, which more than offset lower volume (down 1.3% in 2020, and 1.5% in 2019). Following a strong performance in 2019, when value share of moist oral grew 80 bps, in 2020 this declined 25 bps 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 MRTP 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

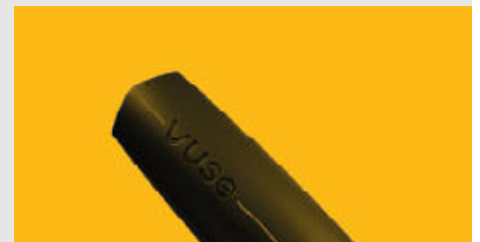
The US business is transforming into a New Categories-oriented business, fuelled by reinvestments from the consistent, industry-leading value growth in the tobacco categories. This involves a major brand-building effort focused on the two global brands, Vuse in Vapour and Velo in Modern Oral, improved 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.



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

Cigarette value
share change

27

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.

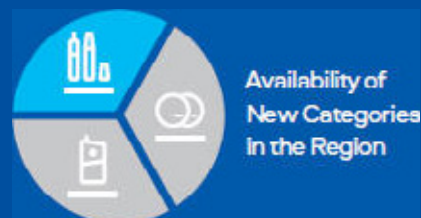
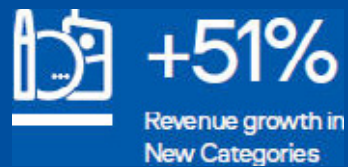
Delivering on our New Categories

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.



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	+143%	+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.

<p>New Categories Combustibles Simplification</p>	<p>New Categories Combustibles Simplification</p>	<p>New Categories Combustibles</p>
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- Inability to develop, commercialise and deliver New Categories
- Geopolitical tensions

- Inability to develop, commercialise and deliver New Categories
- Geopolitical tensions
- Significant excise increases
- Market size reduction/ consumer downtrading

- 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 is summarised. Clear accountability is attached to each risk through the risk owner.

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 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.

Timeframe	
Short-term	
Medium-term	
Long-term	
Strategic Impact	
	<ul style="list-style-type: none"> New Categories Combustibles Simplification
Key Stakeholders	
	Consumers
	Society
	Employees
	Shareholders



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

Short/Long-term

Strategic impact



Key Stakeholders



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.

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

Medium-term

Strategic impact



Key Stakeholders



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.

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

Long-term

Strategic impact



Key Stakeholders



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.

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

Short/Medium-term

Strategic impact



Key Stakeholders



Impact

Volume decline and portfolio mix erosion leading to lower profitability.

Funds to invest in growth opportunities are reduced.

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

Long-term

Strategic impact



Key Stakeholders



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.

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

Long-term

Strategic impact



Key Stakeholders



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.

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

Short/Medium-term

Strategic impact



Key Stakeholders



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.

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

Medium-term

Strategic impact



Key Stakeholders



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.



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

Short/Medium-term

Strategic impact



Key Stakeholders



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.

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

Short-term

Strategic impact



Key Stakeholders



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.

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

Short/Medium-term

Strategic impact



Key Stakeholders



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.

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

The Strategic Report was approved by the Board of Directors on 16 February 2021 and signed on its behalf by Paul McCrory, Company Secretary.



Governance

Chairman's Introduction on Governance



Dear Shareholder

The Group's governance framework continued to operate effectively in 2020 as the Group navigated the extraordinary challenges presented by COVID-19.

Maintaining our business delivery has only been achieved through the resilience and enterprising spirit of our people across the world. Their unwavering commitment to maintaining our high standards in difficult circumstances has been exceptional.

By living and breathing the BAT Ethos, together we have delivered strong results in these difficult times, whilst retaining focus on our corporate purpose of building A Better Tomorrow™.

Board succession

After conducting a thorough selection process in 2020, the Nominations Committee recommended to the Board the appointment of Luc Jobin as my successor. Our Senior Independent Director discusses this process in the Nominations Committee report.

I am delighted that the Board has named Luc as the incoming Chairman. Luc brings with him significant financial, regulatory and consumer business experience. He has been an outstanding Non-Executive Director, providing consistent support, insight and constructive challenge through the development of BAT's strategy. I am sure that BAT will go from strength to strength with Luc as Chairman and Jack Bowles as Chief Executive Officer.

The Board welcomed two new Non-Executive Directors in 2020. Karen Guerra joined the Board in September, bringing varied international experience and focus in marketing and consumer goods. Darrell Thomas, who has extensive US, financial and regulatory experience, joined the Board in December. Our new Non-Executive Directors complement the balance of expertise and perspectives of our already diverse Board.

Culture and values

The Board recognises its role in shaping and overseeing the Group's culture and values, and supports our executive team in embedding the new BAT ethos. I am confident our ethos will serve to guide and empower our organisation in years to come, and play a key part in promoting sustainable growth.

Acting with integrity is an important part of our ethos, and the Board ensures that integrity remains a key area of focus. You can read about our Group Standards of Business Conduct (SoBC) and Delivery with Integrity programme on pages 56 to 57.

Our Board takes very seriously any non-compliance with our SoBC or with our legal obligations. In January this year, we welcomed the UK's Serious Fraud Office's (SFO) announcement that it had closed the investigation of suspicions of corruption in the conduct of business by the Company, its subsidiaries and associated persons, which commenced on 1 August 2017.

BAT remains committed to the highest standards in the conduct of its business and, as previously reported, through external legal advisers we continue to cooperate with relevant authorities.

Stakeholder engagement

Effective engagement with our shareholders, our people and our wider stakeholders is important to the Group's long-term sustainable success.

In 2020, the Board thoroughly reviewed how we engage with all key stakeholders, how we are kept informed of stakeholder perspectives, and the impact of engagement. This review is discussed on page 98. During the year we also considered the impact of COVID-19 on our stakeholders, and the steps taken across the Group to support them where possible.

Engagement with shareholders by the Executive Directors and management significantly increased during 2020. Our engagement programme was adapted to make full use of digital interaction, enabling more extensive shareholder communication despite COVID-19 restrictions.

The Executive Directors and I regularly update the Board on our own dialogue with shareholders to ensure the whole Board understands their perspectives. In 2020, key topics raised by shareholders and discussed by the Board included business transformation, New Categories strategy, performance, ESG targets, impact of COVID-19, deleveraging, capital allocation and regulatory developments. Our Remuneration Committee Chairman also engaged with shareholders on executive remuneration in the lead up to our 2020 AGM.

My fellow Board members and I look forward to further dialogue with our shareholders ahead of our 2021 AGM.



Governance

Chairman's Introduction on Governance Continued

Our people

The safety and wellbeing of all our people was a top priority for the Board in 2020 and this will remain a top priority going forward. In addition to the operational measures we have overseen to ensure this, staying connected with and listening to our staff has been a meaningful way for the Board to lend its support during the pandemic.

We have engagement channels in place across the Group to ensure the Board maintains regular and effective dialogue with our people worldwide through our chosen engagement methodologies.

Throughout 2020, the Board assessed the impact of COVID-19 on our staff worldwide. In recognition of the commitment and resilience shown by our people in the face of the pandemic, the Board collectively wrote to all staff worldwide to express the Board's appreciation for their efforts to keep the business operating effectively and to emphasise that staff safety and wellbeing remains our priority.

In January 2020, I was joined by Luc Jobin and Jerry Fowden on a visit to our US marketing operations in Atlanta, and factory and R&D operations in Winston-Salem, which gave us the opportunity to meet with members of Reynolds American management in person. As global events unfolded, and face-to-face meetings became increasingly restricted, our Executive Directors led a series of virtual forums to connect regularly with regional, local and functional teams.

We also continued to review feedback across the range of the Group's workforce engagement channels. You can read more about the Board's workforce engagement activities on page 98.

Board efficacy

The Board adapted well to the disruption caused by the pandemic. We transitioned to virtual board meetings in March 2020, holding a total of ten meetings in the year (four more than scheduled), allowing us to maintain close oversight of the unfolding impact of COVID-19 on our people and operations. The Board maintained a highly responsive and dynamic relationship with management and staff throughout the year.

Board efficacy is evaluated in detail annually. This year, an internal evaluation of the Board, its Committees and each individual Director was conducted. Having considered the output of this year's evaluation, discussed on page 104, the Board considers that it continues to function effectively and its working relationships with its Committees continue to be sound.

Internal controls

The Group is subject to US compliance obligations under NYSE rules and US securities laws for 'foreign private issuers'. In 2020, our Audit Committee continued to play a key role in monitoring the Group's compliance with the Sarbanes-Oxley Act of 2002 (SOx) and had oversight of the management assessment of the effectiveness of our internal controls over financial reporting.

We explain our internal controls framework and SOx compliance programme on pages 115 to 116.

Looking ahead

The Board's leadership and continued support for delivery of the Group's ambitious sustainability agenda will be critical in the coming years.

As an important part of our corporate purpose to build A Better Tomorrow™ for all of our stakeholders, the Board will closely monitor Group performance against its harm reduction agenda and revised environmental targets, including to achieve carbon neutrality by 2030. You can read about our approach to monitoring performance against ESG targets and our progress in 2020 on pages 46 to 47.

In response to consistent stakeholder focus on climate change and how effectively we as a business take action to address it, we have introduced climate-related disclosure elements as recommended by the Taskforce on Climate-related Financial Disclosures (TCFD) in our 2020 reporting, set out at page 52. Our reporting for 2021 will fully align to the TCFD framework.

Moving forward, with Luc's substantial business experience in North America, and expertise in strategic transformation, governance and regulation, I have full confidence in his ability to lead the Board effectively in its oversight of our strategy, growth and sustainability.

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

Richard Burrows
Chairman



Governance

Throughout the year ended 31 December 2020, we applied the Principles of the UK Corporate Governance Code 2018.

The Company was compliant with all provisions of the Code during the year.

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

Pages noted opposite refer to particular discussion on the application of Principles of the Code in this Annual Report and Form 20-F.

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

Board Leadership and Company Purpose

Principle

A. Long-Term Sustainable Success	pages 2 to 73, 82, 83, 89 to 101
B. Purpose, Values and Culture	pages 2 to 19, 58 to 63, 89, 90, 95 to 96
C. Resources and Control Framework	pages 4 to 9, 22 to 28, 84 to 88, 110 to 116
D. Shareholder and Stakeholder Engagement	pages 82, 83, 89 to 99, 117 to 119
E. Workforce Engagement, Policies and Practices	pages 58 to 63, 90, 98, 122

Division of Responsibilities

Principle

F. Leadership of the Board	pages 89 to 102
G. Board Composition and Division of Responsibilities	pages 92, 93, 102, 103
H. Role and Commitment of Non-Executive Directors	pages 102 to 103
I. Board Support	pages 90, 102 to 104

Composition, Succession, Evaluation

Principle

J. Board Appointments, Succession and Diversity	pages 89, 105 to 109
K. Board Skills and Experience	pages 89 to 93, 104 to 108
L. Board Evaluation	page 104

Audit, Risk, Internal Control

Principle

M. Internal and External Audit Functions	pages 112 to 116
N. Fair, Balanced and Understandable Assessment	pages 115 and 140
O. Risk Management and Internal Controls	pages 84 to 88, 90, 101, 110 to 116

Remuneration

Principle

P. Remuneration Policies and Practices	pages 117 to 139
Q. Development of Policy on Remuneration	pages 117 to 139
R. Judgement and Discretion	pages 117 to 139

Disclosure guidance and transparency rules

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

The UK Corporate Governance Code 2018 is available at www.frc.org.uk

US corporate governance

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

Certain exceptions to these requirements apply to the Company as a foreign private issuer. For details of the significant differences between the NYSE requirements and the Company's practices, please see page 315.



Governance

Board of Directors

As at 16 February 2021



Richard Burrows
Chairman (75)

Nationality: Irish

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

Experience: Richard was Chief Executive of Irish Distillers, Co-Chief Executive of Pernod Ricard, Governor of the Bank of Ireland and is a Fellow of the Institute of Chartered Accountants of Ireland. Prior to joining the Board, Richard was Governor of the Bank of Ireland. Richard previously served as Chairman of the National Development Corporation, President of the Irish Business and Employers Confederation, Chairman of the Scotch Whisky Association, Chairman of Craven House Capital plc and as Senior Independent Director of Rentokil Initial plc.

Relevant skills and contribution to the Board: Richard has considerable consumer goods, international business and financial experience, ranging from leading successful branded manufacturing and service businesses to banking and financial services roles. He is an experienced non-executive director and brings a variety of perspectives.

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



Luc Jobin
Chairman Designate (61)

Nationality: Canadian

Appointed: Chairman Designate from 1 March 2021; Non-Executive Director since July 2017.

Experience: Luc was President and Chief Executive Officer of Canadian National Railway Company from July 2016 until March 2018, having served as Executive Vice President and Chief Financial Officer since 2009. Previously, he was Executive Vice President of Power Corporation of Canada (an international financial services company) from 2005 to 2009. Luc was Chief Executive Officer of Imperial Tobacco Canada from 2003 to 2005 and Executive Vice President and Chief Financial Officer from 1998 to 2003. Luc previously served as an independent Non-Executive Director of Reynolds American Inc. from 2008 until its acquisition by the Group.

Relevant skills and contribution to the Board: Luc brings significant financial, regulatory and M&A experience to the Board, together with extensive North American knowledge and experience of enterprise transformation and consumer and customer businesses.

External appointments: Independent Director of Hydro-Quebec and Gildan Activewear Inc.



Jack Bowles
Chief Executive (57)

Nationality: French

Appointed: Chief Executive since April 2019; Executive Director since January 2019.

Experience: Jack joined the Group in 2004 and was appointed as Chairman of British American Tobacco France in 2005, before becoming Managing Director of British American Tobacco Malaysia in 2007. He joined the Management Board as Regional Director for Western Europe in 2009, becoming Regional Director for the Americas in 2011, then Regional Director for Asia-Pacific in 2013. He became Chief Operating Officer in 2017 and Chief Executive Designate in November 2018, before being appointed to the Board in January 2019.

Relevant skills and contribution to the Board: Jack brings significant management, innovation, and strategic leadership to the Board, developed through his previous roles across many of the Group's key geographies and areas of business. This enables him to effectively lead the Group and deliver our ambition to build A Better Tomorrow™.

External appointments: No external appointments.



Tadeu Marroco
Finance and Transformation Director (54)

Nationality: Brazilian

Appointed: August 2019

Experience: Tadeu joined the Group in Brazil in 1992 and joined the Management Board as Director, Business Development in 2014, later becoming Regional Director, Western Europe in 2016, then Regional Director, Europe and North Africa in January 2018. He was appointed Director, Group Transformation in January 2019 and, in addition to this role, he was appointed Deputy Finance Director in March 2019, before joining the Board as Finance Director in August 2019. As Finance and Transformation Director, Tadeu's role includes leadership of the design and delivery of the Group's QUEST transformation programme to accelerate delivery of Group strategy.

Relevant skills and contribution to the Board: Tadeu brings broad experience gained in various national, regional and global finance and general leadership roles, through his previous roles across the Group. These experiences make Tadeu particularly well-placed to contribute to the Group's transformation and broader strategic agenda.

External appointments: No external appointments.



Sue Farr
Non-Executive Director (64)

Nationality: British

Appointed: February 2015

Experience: Sue's extensive career includes Director, Strategic and Business Development of Chime Group and a number of senior marketing and communications positions, including: Director of Marketing BBC, Corporate Affairs Director of Thames Television and Director of Communications of Vauxhall Motors. Sue is a former Chairwoman of both the Marketing Society and the Marketing Group of Great Britain.

Relevant skills and contribution to the Board: Sue contributes considerable expertise in relation to marketing, branding and consumer issues, which are key areas of focus for the Board.

External appointments: Non-Executive Director and Chair of the Remuneration Committee of Accsys Technologies PLC; Non-Executive Director of Helical plc; and Non-Executive Director of Unlimited Group.



Jerry Fowden
Non-Executive Director (64)

Nationality: British

Appointed: September 2019

Experience: Jerry is Chairman of Primo Water Corporation ('Primo') (formerly Cott Corporation), a US pure-play water solutions provider, having been CEO from 2009 until December 2018. Prior to joining Primo, Jerry held a variety of executive roles, including: CEO of Auto Trader Group; a number of roles at AB InBev, including CEO of Bass Breweries in the UK, Global Chief Operating Officer and European President; Executive Director of The Rank Group; and CEO of the Beverage Division at the Hero Group.

Relevant skills and contribution to the Board: Jerry brings extensive experience in leadership and strategic transformation to the Board and contributes considerable insight in relation to US operational issues, an important market for the Group.

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



Karen Guerra
Non-Executive Director (64)

Nationality: British

Appointed: September 2020

Experience: Karen has held a variety of executive roles, including President and Director General of Colgate Palmolive France, and Chairman and Managing Director of Colgate Palmolive UK Limited. She was formerly a Non-Executive Director of Electrocomponents p.l.c., Davide Campari-Milano S.p.A, Paysafe PLC, Inchcape PLC, Samlerhuset BV and Swedish Match AB.

Relevant skills and contribution to the Board: Karen brings valuable international experience, particularly in marketing, sales and consumer goods insight to the Board.

External appointments: Non-Executive Director of Amcor p.l.c.



Dr Marion Helmes
Non-Executive Director (55)

Nationality: German

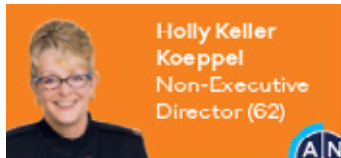
Appointed: August 2016

Experience: Marion's extensive career includes Chief Financial Officer positions at Celesio, Q-Cells and ThyssenKrupp Elevator Technology and, more recently, she has served as a member of a variety of supervisory boards.

Relevant skills and contribution to the Board: Marion brings significant financial expertise and operational experience gained at an international level, having spent her working life managing businesses across Europe, the Americas and Asia. Her experience as a member of various supervisory boards enables Marion to bring a range of insights to the Board's discussions.

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

A	Audit Committee
N	Nominations Committee
R	Remuneration Committee
	Committee Chairman
	Executive Director
	Non-Executive Director



Holly Keller Koeppel
Non-Executive Director (62)



Nationality: American

Appointed: July 2017

Experience: Up until April 2018, Holly was a Senior Advisor to Corsair Capital LLC, where she had previously served as Managing Partner and Co-Head of Infrastructure from 2015 until her retirement in 2017. From 2010 to 2015, she served as Co-Head of Citi Infrastructure Investors and prior to 2010 she held financial and executive management roles with American Electric Power Company, Inc. and Consolidated Natural Gas Company. Holly previously served as an independent Non-Executive Director of Reynolds American Inc. from 2008 until its acquisition by the Group.

Relevant skills and contribution to the Board: Holly's extensive international operational and financial management experience in a range of industry sectors enables her to make important contributions to the Board.

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



Savio Kwan
Non-Executive Director (72)



Nationality: British

Appointed: January 2014

Experience: During his extensive career Savio has worked broadly in technology for General Electric, BTR plc and Alibaba Group, China's largest internet business, where he was both Chief Operating Officer and, later, a Non-Executive Director.

Relevant skills and contribution to the Board: Savio brings significant business leadership experience to the Board, together with a deep knowledge of Greater China and Asia, an important region for the Group.

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



Dimitri Panayotopoulos
Senior Independent Director (69)



Nationality: Greek/British

Appointed: Senior Independent Director since April 2020; Non-Executive Director since February 2015.

Experience: Dimitri was Vice Chairman and Adviser to the Chairman and CEO of Procter & Gamble (P&G), where he started his career in 1977. During his time at P&G, Dimitri led on significant breakthrough innovations and continued to focus on this, speed-to-market and scale across all of P&G's businesses while Vice Chairman of all the Global Business Units.

Relevant skills and contribution to the Board: Dimitri has extensive general management and international sales and brand building expertise, which enables him to make valuable contributions to Board discussions on these important topics.

External appointments: Senior Adviser at The Boston Consulting Group; Advisory Board member of JBS USA; Board Member of IRI; Board Member of North Atlantic Acquisition Corporation.



Darrell Thomas
Non-Executive Director (60)



Nationality: American

Appointed: December 2020

Experience: Darrell is currently Vice President and Treasurer for Harley-Davidson, Inc., having previously held several senior finance positions including Interim Chief Financial Officer for Harley-Davidson, Inc., Chief Financial Officer for Harley-Davidson Financial Services, Inc. and Vice President and Assistant Treasurer, PepsiCo, Inc. Prior to joining PepsiCo, Inc. Darrell had a 19-year career in banking with Commerzbank Securities, Swiss Re New Markets, ABN Amro Bank and Citicorp/Citibank where he held various capital markets and corporate finance roles.

Relevant skills and contribution to the Board: Darrell brings extensive US, financial and regulatory experience to the Board.

External appointments: Vice President and Treasurer for Harley-Davidson, Inc.; Board member of Sojourner Family Peace Center, Inc.

Attendance at Board meetings in 2020¹

Name	Director since	Attended/Eligible to attend	
		Scheduled ⁴	Ad hoc
Richard Burrows	2009	6/6	4/4
Jack Bowles	2019	6/6	4/4
Tadeu Marroco	2019	6/6	4/4
Sue Farr ^{2(a)}	2015	6/6	3/4
Jerry Fowden	2019	6/6	4/4
Karen Guerra ^{3(a)}	2020	2/2	1/1
Dr Marion Helmes	2016	6/6	4/4
Luc Jobin ^{2(b)}	2017	5/6	3/3
Holly Keller Koeppel	2017	6/6	4/4
Savio Kwan ^{2(c)}	2014	6/6	3/4
Dimitri Panayotopoulos	2015	6/6	4/4
Darrell Thomas ^{3(b)}	2020	0/0	0/0
Kieran Poynter ^{3(c)}	2010-2020	2/2	2/2

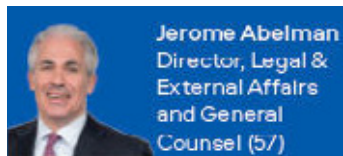
Notes:

- Number of meetings in 2020: The Board held 10 meetings in 2020, four of which were ad hoc and convened at short notice, to review: (1) revolving credit facilities; (2) filing of the Company's Annual Report and Form 20-F with the US SEC; (3) the Group's response to the impact of COVID-19 and other topics; and (4) succession planning for the role of Chairman.
- (a) Sue Farr did not attend the second ad hoc meeting in March due to prior commitments; (b) Luc Jobin did not attend the meeting in April due to prior commitments and was recused from the ad hoc meeting in October which discussed succession planning for the role of Chairman; and (c) Savio Kwan did not attend the first ad hoc meeting in March due to prior commitments. Directors that are unable to attend Board or Committee meetings have the opportunity to provide their comments to the Chairman in advance of the meeting.
- Composition: The Board of Directors is shown as at the date of this Annual Report and Form 20-F; (a) Karen Guerra joined the Board on her appointment as a Non-Executive Director on 14 September 2020; (b) Darrell Thomas joined the Board on his appointment as a Non-Executive Director on 7 December 2020. There were no scheduled or ad hoc meetings following his appointment during the remainder of 2020; and (c) Kieran Poynter retired as a Non-Executive Director at the conclusion of the Company's Annual General Meeting on 30 April 2020.
- Number of meetings in 2021: Six Board meetings are scheduled for 2021.

Governance

Management Board

As at 16 February 2021



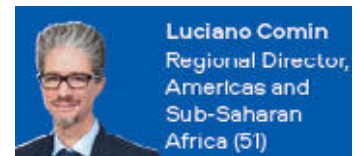
Nationality: American

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



Nationality: Italian/Brazilian

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



Nationality: Italian/Argentinian

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



Nationality: Australian

Michael was appointed Regional Director for Asia-Pacific and Middle East in September 2020 and joined the Management Board at the same time. Previously, he was Area Director for Asia-Pacific and Global Travel Retail. Michael joined BAT in 1999 and has held several senior roles in the Group including General Manager (Papua New Guinea and Cambodia) and Regional Manager, Asia-Pacific.



Nationality: Pakistani

Zafar was appointed Director, Operations in February 2021 and became a member of the Management Board at the same time. Previously, he was Group Head of New Categories Operations where he was responsible for successfully embedding an end-to-end supply chain for our New Category products to support their accelerated growth across the world. Zafar joined BAT in 1996 and has held several senior roles in the Group including Regional Head of Operations Asia Pacific & Middle East, Group Head of Plan, Service & Logistics, Regional Head of Plan and Service for Western Europe and Head of Operations, Bangladesh.



Nationality: Korean

Hae In joined the Management Board as Director, Talent and Culture Designate in January 2019 and became Director, Talent and Culture in April 2019. Her role title changed to Director, Talent, Culture and Inclusion in November 2020. She was previously Group Head of Talent and Organisational Effectiveness and has held several other senior HR roles in the Group, including Regional HR Director, Asia-Pacific, and HR Director, Japan and North Asia. Prior to joining the Group in 2008, she gained experience at Samsung, IBM Consulting Services and PricewaterhouseCoopers.



Nationality: Dutch

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



Nationality: New Zealand

Guy was appointed President and CEO of Reynolds American Inc. in September 2020, having joined the Management Board as Regional Director, Asia-Pacific and Middle East in January 2019. Previously he was Area Director, Australasia Area. Guy joined the Group in 1993 and has held several senior roles in the Group including Area Director, North Asia Area and Marketing Director, Russia.



Nationality: British

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



Nationality: Belgian

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



Nationality: British

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

Leadership and Purpose

Leadership Overview

Our Board

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

Primary Board responsibilities include:

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

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

Board programme and activities

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

The key activities of the Board in 2020 are set out on pages 100 to 101. These are discussed under the Group's strategic priorities of Driving Value from Combustibles, Step Change in New Categories and Simplifying the Business, and in the areas of Financial and Risk, ESG and People.

The Board's strategic priorities for 2020 are identified within the key performance indicators set out on page 9. During 2020, oversight of the impact of COVID-19 and the Group's response was also a key activity for the Board.


The Board considers stakeholder interests in its decision-making on an ongoing basis. Examples of how the Board considers the long-term consequences of decisions, stakeholder interests, the impact of our operations on the environment, and corporate reputation (amongst other factors) are discussed on pages 100 to 101.

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

How our governance framework supports our strategy

As part of our internal controls framework, the Board has delegated certain authorities to executive management through the Group Statement of Delegated Authorities to enable effective delivery of Group strategy.

The Board's approach to delegation of authorities is discussed further on page 96.

 Board oversight of M&A transactions
See page 272

Board Committees

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

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

Each Committee has its own terms of reference, available at bat.com/governance. Committee terms of reference are regularly reviewed and updated, most recently in 2019 to align with the Code.

Board Committees



Management Board

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

The Management Board is chaired by the Chief Executive and comprises the Executive Directors and 11 senior Group executives whose names and roles are described on page 94.

Guy Meldrum was appointed as President and CEO, Reynolds American Inc., and Michael Dijanosic was appointed Regional Director, Asia-Pacific and Middle East, with effect from 1 September 2020. Ricardo Oberlander stepped down from the Management Board with effect from 31 August 2020.

Zafar Khan was appointed as Director, Operations with effect from 1 February 2021. Alan Davy stepped down from the Management Board with effect from 31 January 2021.

Primary Management Board responsibilities include:

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

Leadership and Purpose

Our Culture and Values

Shaping and Overseeing Culture

Our Board shapes and supports the Group's culture and ethos. We launched the new BAT ethos in 2020 (set out in full on page 59), which was developed with significant employee input. Its aim is to guide our culture and behaviours across the Group, enabling an organisation that is future fit for sustainable growth.



We believe our ethos empowers our people and fosters a vibrant, rewarding and responsible work place. Its focus on diversity and inclusion enables better understanding, connectivity and insights across our business. Our purpose, set out on page 19, also requires new and diverse perspectives, skills, and management styles, and a culture where these can thrive.

The strength of our culture and ethos has been demonstrated by the exceptional resilience of our people and their responsiveness to meeting the challenges presented by COVID-19. Our Board is committed to supporting Jack, Tadeu and our Management Board in continuing to embed the BAT ethos in every area of our business.

Our Group Statement of Delegated Authorities (SoDA) aims to empower people at the right level of our organisation and promote high levels of accountability and ownership. Overseeing the implementation of Group strategy through the SoDA is one of the ways that the Board promotes good corporate governance, risk management and internal control in the Group. The SoDA supports our Board members in managing their responsibility for promoting the success of the Company, in line with their directors' duties.


Delivery with integrity

How we execute our strategy is as important as its successful delivery, and our Board is focused on ensuring that in every aspect of our business we deliver with integrity.

In an organisation as diverse as ours, it is essential to the Group's continued success that all our people act with consistently high standards of behaviour. We articulate this through our Group Standards of Business Conduct (SoBC), which we review and update regularly. Compliance with our SoBC, in letter and spirit, is mandatory for all our people worldwide.

Our SoBC holds everyone responsible for compliance, and every line manager across our business must act as a role model for high standards of behaviour. The SoBC includes our Speak Up policy, reflecting the range of Speak Up channels for raising any concerns in confidence (anonymously if preferred) and without fear of reprisal. The SoBC also includes our Lobbying and Engagement policy, reinforcing the requirement for all our engagement activities with governments, regulators and other external stakeholders to be conducted with transparency, openness and integrity.

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

 Read more about our commitment to delivery with integrity and our Group Standards of Business Conduct on pages 56 to 57

Monitoring Culture

Having considered the Group's culture in a range of contexts during the year (including those illustrated below), our Board is satisfied that our culture is aligned with the Group's purpose, strategy and ethos, and reflected consistently in our workplace policies and practices.

During 2020, Board oversight and monitoring of culture was supported by the Board's annual review of the Group culture dashboard. This dashboard presents a series of insights measured over time across the organisation, including diversity at different levels, employee engagement, leadership stability, employee retention and turnover, business conduct, Speak Up, and health & safety.

Outside of the boardroom, the Directors typically participate in regular market and site visits, giving them direct experience of our organisational culture in context. In 2020, COVID-19 impacted the Directors' travel programme. However, the market and site visits that took place early on in the year were supplemented by virtual forums later in 2020. Board engagement with the workforce across our Group is discussed further on page 98.

Board focus on culture in 2020

Non-Executive Director visit United States

In January 2020, Richard Burrows, Luc Jobin and Jerry Fowden met with representatives from our US business, visited marketing operations in Atlanta, Georgia and toured the RJ Reynolds Tobacco Company factory and R&D operations in Winston-Salem, North Carolina.

Board strategy sessions Culture and talent

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

Board review Enterprise of the future

Assessing the accelerators required to drive the Group's ambition and evolve a future fit, interconnected organisation, through delivery of transformation, unleashing innovation, organisational empowerment and shaping sustainability, enabled by digital capabilities.

Board oversight Staff safety, wellbeing and support

Considering the impact of COVID-19 on staff across the Group and reviewing strategies for securing a safe environment for staff continuing to work on-site where necessary, effective connectivity for staff working remotely, and supporting staff wellbeing.

Board review Group workforce engagement

Review of Group workforce engagement mechanisms, feedback received from engagement channels across the Group, actions taken in response to workforce feedback, and considering areas for future focus.



Read more on page 98.

Board Oversight Keeping connected during the pandemic

Oversight of an extensive range of dynamic internal communications and virtual engagement by Executive Directors and management with staff across the Group, to help staff feel connected and supported during the pandemic and to recognise their resilience.



Board Engagement With Stakeholders

Our Directors value engagement with our shareholders and wider stakeholders to understand their views and inform the Board’s decision-making, strategy development and risk assessment.

Shareholder and Investor Engagement

The Board is committed to open and transparent dialogue with shareholders to ensure their views are understood and considered. The Chairman and Executive Directors’ annual engagement programme is discussed below. The Senior Independent Director and other Non-Executive Directors are also available to meet with major shareholders on request.

Annual investor relations programme

A global engagement programme is conducted annually with shareholders, potential investors and analysts. This is led by the Chairman and Executive Directors, supported by the Investor Relations team which was expanded in 2020. During the year, there was a significant increase in shareholder engagement, particularly by Executive Directors and management, with greater frequency of communications and an emphasis on ESG strategy.

In view of COVID-19 restrictions, our engagement programme was adapted to leverage digital interaction, enabling more of investor contacts through a broader range of event formats (roadshows, fireside chats, presentations, video and audio webcast). In total, 463 investor engagement activities were conducted in 2020 entirely through digital formats.

The Executive Directors presented our Full and Half-Year results and pre-close statements, with investor Q&A calls. Presentations and transcripts are published on bat.com. In March 2020, 645 internal and external participants attended our Capital Markets Day, successfully adapted to webcast format, including a record 250 investors and market analysts across the US, UK, Europe and South Africa. At our Capital Markets Day, Jack Bowles launched our corporate purpose to build A Better Tomorrow™ and presented our new ESG targets. Management Board members presented on business transformation and the event concluded with live Q&A with the investment community.

In 2020, market roadshows were held in the UK, US, South Africa and Europe for existing and prospective shareholders, covering the majority of our share capital. With COVID-19 focusing investor attention on sustainable dividends and ESG, management hosted roadshows for income funds and ESG investors. Topics discussed at market roadshows included our transformation progress, COVID-19 response, regulatory change, capital allocation priorities and ESG strategy. Two investor perception studies were commissioned in 2020, providing comprehensive feedback from 107 investors on our engagement and ESG strategy.

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

How the Board considers shareholder views

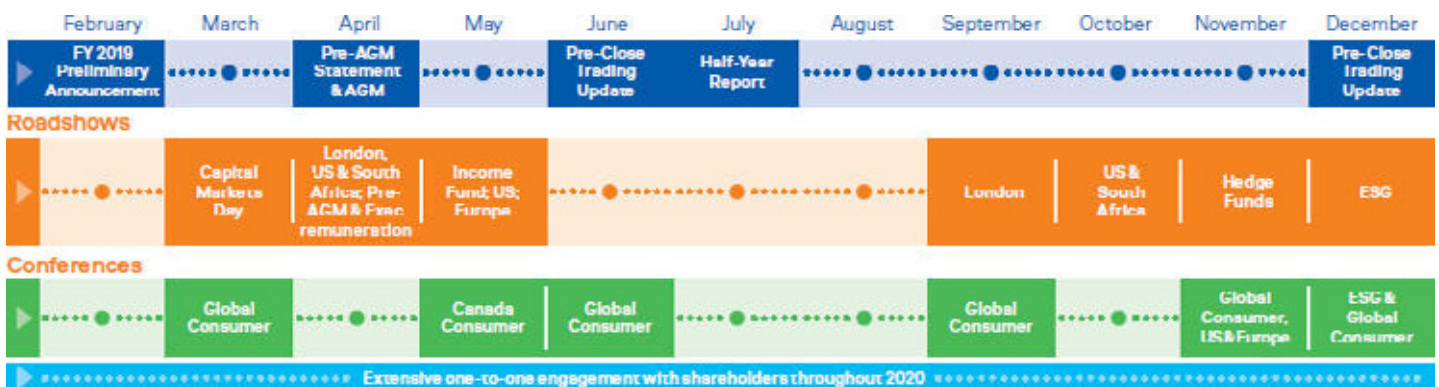
The Chairman and the Executive Directors regularly update the Board on their dialogue with shareholders. The Board receives regular updates from the Head of Investor Relations and our brokers on key issues raised by shareholders and on share price performance. Shareholder perspectives considered by the Board during 2020 included business transformation, New Categories strategy, performance, ESG targets, impact of COVID-19, deleveraging, capital allocation and regulatory developments. The Board discusses key issues raised and takes shareholder feedback into account in developing Group strategy.

Annual General Meeting

Our AGM is an opportunity for further shareholder engagement, for the Chairman to set out progress and for the Board to answer questions. Our 2020 AGM was held whilst the UK Government’s COVID-19 ‘Stay at Home’ measures were in force, which prohibited public gatherings of more than two people. Given those restrictions, our 2020 AGM was convened with a minimum quorum of two shareholders in accordance with the Company’s Articles of Association and other shareholders were not permitted to attend. Shareholders were given the opportunity to submit questions about the business of the AGM in advance of the meeting and responses to the queries received were published at www.bat.com/agm. Details of our 2021 AGM are set out on page 343.

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

Investor relations calendar 2020



Update on 2020 AGM voting results

All resolutions were passed at the Company’s AGM held on 30 April 2020 with the requisite majority of votes. However, we acknowledge the minority vote against received in relation to the 2019 Directors’ Remuneration Report and the resolution to renew the Directors’ authority to allot shares.

Directors’ Remuneration Report

We have engaged with a number of shareholders that voted against this resolution to understand their position and perspectives on the management of executive pay and, in particular, within the evolving market context. The Remuneration Committee has discussed the feedback in detail and the matters raised by shareholders remain under active consideration in 2021.

Renewal of Directors’ Authority to Allot Shares

Whilst we recognise that some shareholders are unable to support an allotment authority at the level sought, this level of authority continues to be supported by the majority of our shareholders and is in line with prevailing UK market practice and the UK Investment Association’s share capital management guidelines.

Although there is no present intention to exercise this authority, the Board continues to consider that this level of authority is appropriate to maintain flexibility for the Company.

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



Leadership and Purpose

Board Engagement With Stakeholders Continued

Wider Stakeholder Engagement

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

Our key stakeholders are set out on pages 82 to 83, with an overview of their importance to our long-term sustainable success, what matters to them, and how we engage and respond. Our Board conducted a review of key stakeholders in 2020. This included how engagement is conducted across the Group, stakeholders' perspectives, and how the Board is kept informed of those perspectives where engagement is not at Board level. During the year, the Board also considered the impact of COVID-19 across our key stakeholders.

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

Following its review, our Board remains satisfied that there is effective and well-established engagement with the Group's key stakeholders which enables the Board to understand their perspectives. The Board will continue to monitor the ongoing effectiveness of our Group's stakeholder engagement.

[Read more about our key business stakeholders and how we engage](#)
Pages 82 to 83 and 117 to 119

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

Consumers

Our consumers are at the core of everything we do. Consumer-led innovation and product science are central to achieving our purpose of building A Better Tomorrow™. We believe that our multi-category approach is the most effective way to appeal to the diverse preferences of adult consumers worldwide.

The Board is regularly briefed by the Executive Directors and senior management on product performance across all portfolio categories and how product offerings continue to evolve to satisfy adult consumer preferences across our New Categories and traditional portfolios. In 2020, the Board was updated on how product roll-out plans and consumer activations were adapted to accelerate digital engagement and e-commerce platforms have been enhanced to respond to challenges presented by COVID-19 and enable continued consumer engagement.

Through its strategy sessions in 2020, the Board reviewed how consumer insights, product preferences and the Group's approach to scientific product stewardship support delivery of superior product pipelines and a step-change in New Categories performance. The Board also discussed opportunity spaces to recapture consumer moments and needs beyond nicotine.

[Read more about our approach to engaging with consumers](#)
Pages 29 to 43 and 82

Our People

The Board keeps up-to-date on the views of our workforce through a combination of engagement methods, across multiple channels at different levels of our organisation. These include Board market and site visits, town halls, works councils, global webcasts, and our 'Your Voice' global employee survey, discussed further on pages 62 to 63.

Director market visits and other engagement forums in 2020*



* Total virtual or face-to-face events by location/central function in 2020 that one or more Directors attended.

Matters reserved for the Board include responsibility for understanding the views of our global workforce and review of the effectiveness of workforce engagement mechanisms, in accordance with the Code.

The Board adopts a combination of workforce engagement mechanisms in line with the Code. Given the spread, scale and diversity of the Group's workforce, the Board continues to consider it effective to use the established channels referred to above. These channels, combined with Group-wide reporting structures to capture workforce feedback, cover all Group company employees and individuals contracted on a fixed-term basis to undertake permanent roles worldwide. Focus and action areas reviewed by the Board are then cascaded to our workforce.

Engagement across our organisation has been a top priority during COVID-19. The Board reviewed our workforce engagement channels across the Group and consolidated feedback from across those channels in 2020. The overarching themes from this feedback were business transformation, New Categories, and staying connected. The Board reviewed the actions taken by management in response, particularly on staff health and wellbeing and effective team connectivity.

Our Directors also take the opportunity to engage directly with people across our organisation. In January 2020, Richard Burrows, Luc Jobin and Jerry Fowden met with representatives from our US business, visited marketing operations in Atlanta, Georgia and toured the RJ Reynolds Tobacco Company factory and R&D operations in Winston-Salem, North Carolina.

During the year our Executive Directors led a series of virtual market visits and other forums to connect regularly with regional, local and functional teams, participated in our internal global news channel BATV, and presented global, functional and market webcasts including discussions on strategy, performance, culture and business outlook, with live Q&A.

[Read more about workforce engagement across our Group](#)
Pages 62, 63, 82 and 122

UK Companies Act: Employee engagement

This section summarises the Directors' approach to engaging with the Group's workforce, including employees of UK Group companies, and how the Directors have regard to their interests. Further information is provided on pages 58 to 63 and 82 to 83. Information regarding the effect of that regard is provided on pages 100 to 101.

Suppliers

Our relationships with suppliers and contracted farmers are managed day-to-day by the Group's Operations function and at local market level. The Board periodically reviews the Group's supply chain strategies, supplier footprint and progress of sustainable agriculture and farmer livelihoods programmes.

In 2020, the Board was regularly updated on the impact of COVID-19 on our operations and supply chain, mitigating actions taken to avoid resulting supply chain disruption, and initiatives to support suppliers in responding to the impact of COVID-19. These included earlier payment arrangements for suppliers facing cash flow issues.

The Board reviewed key elements of the Group's tobacco sourcing strategy, nicotine supply chain, and sourcing footprint. The Board was also updated on the Group's approach to managing ESG across the tobacco supply chain, including environmental management, deforestation monitoring, and the Group's THRIVE programme which responds to insights from engagement with our contracted farmers and third-party tobacco suppliers.

The Board reviewed the annual Modern Slavery Statement, including actions taken to address the risk of human rights issues across our subsidiary operations and supply chains. The Board also gave approval to the Company's first Conflict Minerals Report prior to filing with the US SEC, which details due diligence undertaken to determine the origin of minerals at risk of being sourced in conditions of conflict.

[Read more about how we engage with our suppliers and farmers](#)
Pages 3, 48, 53 to 55 and 83

Customers

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

In 2020, focus areas for Board updates included the impact of COVID-19 on retailers, wholesalers and distributors and how markets were adapting to maintain their engagement with customers, including through setting up field force virtual store visits, boosting e-commerce capabilities and innovative distribution models to enable stock pick-ups.

The Audit Committee also reviews the Group's Youth Access Prevention activities and action plans annually.

[Read more about how we engage with our customers](#)
Pages 3, 57 and 83

Governments and Wider Society

We believe tobacco harm reduction can only be solved by collaboration, and that only through collaborative effort can effective regulation be developed to enable real consumer choice whilst still serving tobacco-related public health objectives. The Board is briefed on scientific engagement with regulators, public health bodies, and scientific communities. In 2020, this included updates on engagement with regulators on a potential COVID-19 vaccine being developed by our US bio-tech subsidiary, Kentucky BioProcessing, discussed further on page 3.

At every regular Board meeting, the Board reviews a report from our Legal & External Affairs Director covering regulatory engagement, anti-illicit trade initiatives, litigation and compliance. The Board is also briefed on evolving product regulation through strategy sessions and briefings from the Chief Executive.

The Board endorsed new Group environmental targets in 2020, including to accelerate achievement of existing 2030 targets to 2025 and attain carbon neutrality by 2030. The Board also reviewed the Group's progress against those targets during the year.

The Audit Committee reviews the Group's ESG performance annually, including our investment in community and charitable initiatives under the Group's Strategic Framework for Corporate Social Investment. It is also updated on engagement with tax authorities on material Group tax matters. The Non-Executive Directors regularly attend the Corporate Audit Committee and Regional Audit & CSR Committees, where societal and community perspectives at regional and local levels are discussed. The Audit Committee also reviews feedback from these Committees.

The Chairman is a member of a number of forums enabling engagement with the UK Government on topics such as global trade, Brexit and cyber security. These include the Confederation of British Industry, the Multinational Chairman Group and the Whitehall & Industry Group. The Chairman also participates in the Global Leadership Foundation (GLF), a stakeholder network helping developing countries improve governance.

[Read more about our engagement with governments and wider society](#)
Pages 35, 44 to 57 and 83

UK Companies Act: Business relationships

This section summarises how the Directors have regard to the need to foster business relationships with customers, suppliers and other external stakeholders. Further information is provided on pages 82 to 83. Information regarding the effect of that regard is provided on pages 100 to 101.

Sustainability Stakeholder Panel

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

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

In November 2020, Richard Burrows, Luc Jobin and Savio Kwan, with members of senior management, held a virtual conference with the Panel to review key business and strategic developments in relation to our corporate purpose and sustainability agenda, insights on evolving ESG issues that could impact our wider stakeholders, and approach to accelerating delivery of our ESG agenda.



Leadership and Purpose

Board Activities in 2020



Step Change in New Categories Performance

Continued investment and development of New Categories to accelerate growth is a strategic focus of the Board's agenda.



Drive Value From Combustibles

Driving value from combustibles is a core priority for the Board, to deliver today and build A Better Tomorrow™.



Simplify the Business

The Board understands our business is enabled by simplifying our structures, embracing digital transformation, and rigorous cost management.

Activities in 2020

- reviewing Group strategy to accelerate New Category growth and its implementation across the Group;
- reviewing New Categories product performance, trading environment and competitor landscape;
- reviewing New Categories product portfolios, innovation pipeline and roll-out plans, including roll-out plan adaptation in response to COVID-19;
- reviewing the impact of COVID-19 on the New Categories supply chain and steps taken to deliver continuity of supply;
- reviewing key aspects of the Group's nicotine supply chain, leaf strategy and sourcing footprint to support a step change in New Categories;
- reviewing the Group's approach to product stewardship and science underpinning development of New Categories products;
- reviewing the New Categories product environment, with particular focus on evolving product regulation in the US; and
- oversight of the structure, resources and key objectives for the Group's corporate venture capital unit, 'BTomorrow Ventures', established to enhance value creation in New Categories through innovative and agile relationships with venture capital partners.

Activities in 2020

- reviewing Group strategy to drive value from combustibles and its implementation across the Group;
- reviewing Group combustible product performance, trading environment, competitor landscape and the impact of COVID-19 and national lock-downs on performance across the Group;
- reviewing combustible product portfolios, innovation pipeline and roll-out plans, including to respond to the impact of COVID-19;
- reviewing the impact of COVID-19 on the Group's combustible products supply chain, the Group's factory operations and steps taken to deliver continuity of supply; and
- reviewing the Group's leaf strategy to source leaf and tobacco components to deliver sustainable value and superior products, and the Group's tobacco sourcing footprint and key supplier partnerships.

Activities in 2020

- reviewing implementation of the first phase of the Quantum transformation project, and the design and objectives of a further phase of the Quantum project to deliver operational efficiencies, route-to-market focus and supply chain productivity, enabling release of funds for reinvestment;
- assessing the accelerators required to deliver the Group's 2025 ambition and evolve a future fit, interconnected organisation;
- reviewing the Group's digital strategy, including progress of the Group's digital transformation agenda, risk management and cyber security; and
- oversight of progress across the Group to transition certain Modern Oral product brands to Velo and certain vapour product brands to Vuse, as part of the Group's focus on fewer, stronger and global brands across all product categories.

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

A Better Tomorrow™

The Board reviewed and endorsed the evolution of the Group's strategy, presented at pages 18 to 19, with sustainability front and centre, and a clear corporate purpose to build A Better Tomorrow™ for the Group's stakeholders. The evolution of the Group's strategy reflects the Board's understanding of the global impact of our business, stakeholder perspectives, our evolving societal responsibilities, and the importance of high standards of integrity.

Key stakeholder perspectives taken into account

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

Digital strategy

The Board endorsed the Group's digital strategy, to accelerate digital capabilities across the organisation. The strategy focuses on efficient ways of working, agile supply chains and enhanced consumer and customer connections, including through innovation in product activation and e-commerce, while maintaining a stable, effective and secure technology environment and continuing to respond to the impact of COVID-19.

Key stakeholder perspectives taken into account

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





Financial and Risk

The Board pays close attention to Group performance and financial matters, internal control, and integrity of reporting and risk management.

Activities in 2020

- approval of Group budget and oversight of resource allocation activities, to support strategy execution;
- reviewing Group financial performance against key performance metrics, current outlook and COVID-19 impact throughout the year, key challenges and opportunities for growth in each region;
- reviewing Group half-year results, trading updates, year-end results and the Annual Report and Form 20-F;
- determining Group viability for reporting purposes taking into account current position and principal risks;
- reviewing compliance with Group financing principles, including liquidity, capital allocation and adjusted net debt/ EBITDA;
- reviewing the Group's revolving credit facilities, planned refinancings and the Group's debt issuance programmes;
- reviewing Group cash flow performance and opportunities to optimise the balance sheet to enable ongoing investment while reducing the carrying value of debt;
- reviewing the Group Risk Register, Group risk appetite in the context of its strategic objectives, emerging risks to the Group, and Group insurance coverage;
- reviewing the impact of foreign exchange on financial performance and measures taken to mitigate foreign exchange risks;
- reviewing share price performance and investor and broker perspectives; and
- reviewing financial performance of the associates of the Group periodically.



Environmental, Social and Governance

The Board emphasises that our strategy, business, and product portfolio be sustainable for the long term and meet our evolving societal responsibilities.

Activities in 2020

- reviewing the evolution of Group strategy, placing ESG front and centre of Group activities, approving new ESG targets and reviewing performance;
- assessing the impact of COVID-19 on Group operations, Group business continuity structures and plans to manage the Group's response;
- reviewing Group stakeholders, engagement methods, stakeholders' perspectives, and the Group's response;
- reviewing Group regulatory engagement activities and evolving global product regulation;
- reviewing health and safety performance for the preceding year, targets for the coming year and action plans;
- approving the annual Modern Slavery Act statement and the Company's first conflict minerals report;
- reviewing updates on compliance matters, including investigations, allegations of misconduct, reports from Speak Up channels, and progress of the Group's 'Delivery with Integrity' programme; and
- reviewing the status of litigation proceedings involving Group companies, including updates on the Canadian Companies' Creditors Arrangement Act (CCAA) process in relation to Group subsidiary Imperial Tobacco Canada, Fox River and Kalamazoo River proceedings, and claims brought by Reynolds American dissenting shareholders following acquisition of the remaining shares in Reynolds American.



People

The Board shapes and oversees the Group's culture and ethos. Setting the 'tone from the top' is an important part of the Board's role.

Activities in 2020

- approving the appointment of Luc Jobin as Chairman Designate and then to succeed Richard Burrows as Chairman of the Board, the appointment of two new Non-Executive Board Directors, and changes to Management Board composition, on the recommendation of the Nominations Committee;
- monitoring corporate culture and its alignment with the Group's purpose, ethos and strategy;
- reviewing the Group's talent strategy, diversity and inclusion agenda, and progress against their objectives;
- considering the impact of COVID-19 on the Group's workforce and reviewing strategies for securing safe on-site environments, effective connectivity for remote working, and for supporting staff wellbeing;
- considering feedback from the Group's workforce engagement mechanisms;
- reviewing Speak Up mechanisms and the reports arising from them;
- determining the independence of Non-Executive Directors prior to proposing them for re-appointment (or appointment for the first time) at the Company's AGM;
- approving revisions to Non-Executive Director fees;
- reviewing the funding positions relating to the Group's retirement benefit schemes; and
- reviewing the outcomes of the evaluation of the effectiveness of the Board and its Committees in 2020.

Budget and resource allocation

The Board approved the 2021 budget, weighing the balance between long-term corporate and consumer benefits of New Categories investment and continued portfolio development with our commitment to significant deleveraging. The budget design enables evolution of our growth model through development of our portfolios in tobacco, nicotine and beyond to meet evolving consumer preferences and encompasses our commitment to robust product stewardship, research and collaborative innovation to meet those needs.

Key stakeholder perspectives taken into account

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

New ESG targets

The Board approved new ESG targets to: have 50 million consumers of non-combustible products by 2030; achieve carbon neutrality by 2030; and to bring forward existing 2030 environmental targets to 2025, together reflecting the Board's commitment to reducing the health and environmental impacts of our business. These targets take into account the emphasis placed by our external stakeholders on the importance of addressing the health impacts of smoking, responding to climate change, and maintaining high standards of environmental management.

Key stakeholder perspectives taken into account

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

Governance

Division of Responsibilities

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



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

Chairman	Non-Executive Directors	Senior Independent Director (SID)
<ul style="list-style-type: none"> – Leadership of the Board – Ensures Board effectiveness – Facilitates Directors' contributions – Sets the Board agenda – Interfaces with shareholders – Ensures effective shareholder engagement – Representational duties on behalf of the Company 	<ul style="list-style-type: none"> – Oversee Group strategy and resource allocation – Scrutinise and hold to account performance against objectives – Monitor Group performance – Oversee systems of control and risk management – Review management proposals and provide strategic guidance – Bring external perspective and effective challenge to management 	<ul style="list-style-type: none"> – Leads review of the Chairman's performance – Presides at Board meetings in the Chairman's absence – Chairs the Nominations Committee when Chairman succession considered – Sounding board for the Chairman – Intermediary for other Directors – Available to meet with shareholders

Chief Executive	Finance and Transformation Director
<ul style="list-style-type: none"> – Overall responsibility for Group performance – Leadership of the Group – Enables planning and execution of Group objectives and strategies – Stewardship of Group assets – Drives the cultural tone of the organisation 	<ul style="list-style-type: none"> – Leadership of the Group in respect of financial matters – Enables planning and execution of Group financial objectives and strategies – Leadership of the design and delivery of the Group's QUEST transformation programme to accelerate delivery of Group strategy

Non-Executive Director meetings

- The Non-Executive Directors, led by the Chairman, meet prior to or following Board meetings on a regular basis. Additional meetings led by the Chairman are scheduled in the Board calendar without the Executive Directors present.
- The Executive and the Non-Executive Directors also meet annually, led by the Senior Independent Director and without the Chairman present, to discuss the Chairman's performance.

Directors information and advice

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



Board Efficacy

The Board adapted well to the disruption caused by the pandemic, transitioning to virtual board meetings in March 2020. The Board evaluation for 2020 noted that this format worked well and that Board meetings are considered to be chaired effectively. The support of the Company Secretariat in enabling the Board to function effectively was also noted in the Board evaluation.

The Chairman facilitates constructive board relations, supporting the effective contribution from Non-Executive Directors and a culture of openness and debate. The Chairman seeks a consensus at board meetings but, if necessary, decisions are taken by majority decision. If any Director has concerns on any issues that cannot be resolved, such concerns are noted in the Board minutes. No such concerns arose in 2020.

Independence

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

In respect of Luc Jobin and Holly Keller Koepfel, who were originally appointed to the Board in 2017 following the acquisition of Reynolds American Inc. (Reynolds American) and pursuant to the Agreement and Plan of Merger with Reynolds American, the Board has determined each of them to be independent Directors, having taken into account their respective periods of service on the board of Reynolds American as independent, non-executive directors.

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

The Board considers that it includes an appropriate combination of Executive and Non-Executive Directors.

Commitment

Before appointing prospective Directors, the Board takes into account their other commitments and significant time commitments are disclosed prior to appointment. The letters of appointment for the Chairman and Non-Executive Directors set out their expected time commitment to the Company.

Any additional external appointments following appointment to the Board require prior approval by the Board in accordance with the UK Corporate Governance Code. The Board assesses the significance of any additional external appointment notified by a Director, supported by the Company Secretary.

During 2020, the Board was not notified of any new significant external appointments for consideration and approval.

Board Induction For New Non-Executive Directors

Darrell Thomas was appointed to the Board on 7 December 2020 and will complete his Non-Executive Director induction early in 2021.

Darrell's induction programme comprises a comprehensive series of briefings with Board members, senior management, the Company's external auditors and external advisers, including specific focus on accounting and reporting matters.

Darrell's induction programme will be reported in the Annual Report and Form 20-F for 2021.



Conflicts of Interests

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

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

Professional Development

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

Non-Executive Directors regularly attend meetings of the Group's Regional Audit and Corporate and Social Responsibility Committees and Corporate Audit Committee to gain a better understanding of the Group's regions and central functions and the risks faced by the business at market, regional and functional levels. Non-Executive Directors also meet with our Sustainability Stakeholder Panel by rotation to keep up to date with wider stakeholder perspectives.

As part of the Board's review of workforce engagement in 2020, it received a recap on its obligations under the UK Corporate Governance Code to monitor the effectiveness of engagement channels. The Board also revisited directors' duties under Section 172 of the UK Companies Act 2006 through its review of key stakeholder engagement in 2020.

During the year, the Audit Committee was updated on stakeholder expectations for climate change reporting, proposals to reform the UK audit market and the UK Financial Reporting Council, and revisions to UK auditing standards and their impact.

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

Board Induction

All Directors receive a thorough and personalised induction on joining the Board.

Karen Guerra completed her Non-Executive Director induction programme in Q4 2020 following her appointment to the Board on 14 September 2020.

Due to COVID-19 restrictions, Karen's induction was conducted through virtual meetings, and included sessions with the Chairman, Senior Independent Director and the Executive Directors and a comprehensive series of briefings with Management Board members and other senior management covering the Group's strategy, business regions, product portfolios, ESG agenda, shareholder and wider stakeholder engagement programmes and stakeholder perspectives, evolving regulation, corporate governance, directors' duties and treasury, risk, and legal matters. Karen also had one-to-one sessions with the Company's external audit partner and, in view of her appointment to the Remuneration Committee, with our UK and US remuneration consultants on the executive and wider remuneration landscape and corporate governance.

When COVID-19 restrictions permit, Karen's induction will be extended to include a visit to our Global R&D Centre in Southampton to meet with scientists and product developers, and attend New Categories 'look and feel' exploration sessions.

Luc Jobin is currently participating in a broad, personalised induction to the role of Chairman and his induction programme will be reported in the Annual Report and Form 20-F for 2021.

Board Effectiveness

Review Process

The performance and effectiveness of the Board, its Committees, the Executive and Non-Executive Directors and the Chairman were evaluated internally in 2020, facilitated by the Company Secretary. An external evaluation of the Board, its Committees and the Directors was conducted in 2019, facilitated by Independent Audit Limited.

The Chairman is responsible for the overall evaluation process and each Committee Chair is responsible for the evaluation of the performance and effectiveness of their Committee. The evaluations were conducted through a series of detailed questionnaires and all participants were requested to provide commentary to support their assessments.

All Directors (except for Karen Guerra, who had just joined the Board, and Darrell Thomas, who joined the Board after the evaluation) participated in the evaluation process, assessing the Board, the Committees of which they were a member or regularly attended in 2020, and each of the Directors individually.

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

Anonymised reports specifying the findings of the evaluations were prepared by the Company Secretary for the Board and each Committee. The Board and Committees then reviewed and discussed their respective reports and identified action areas for 2021 taking into account the evaluation findings.

The Chairman received reports from the Company Secretary on the performance and effectiveness of all Executive and Non-Executive Directors (other than himself) in 2020 and he provided individual feedback to each Director.

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

2020 Evaluation: Outcomes and Actions

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

Leadership and culture

The Board recognised the outstanding effort of the Executive Directors throughout the challenges presented by COVID-19. Directors appreciated the regularity of frontline feedback to the Board as the pandemic unfolded. The Executive Directors are recognised as being open and participative with both the investment community and the Board, and are acknowledged to have fostered a cultural shift to a more dynamic tone of communication across the organisation.

The range of grassroots feedback from employee engagement provided to the Board is considered to have facilitated its oversight of organisational culture, in response to the action identified in the 2019 evaluation.

Action for 2021

- Board review of Nominations Committee analysis of strategic profile and capabilities required of future Non-Executive Directors in the context of Group strategy.

Strategy

The Board regarded the communication of the evolved Group strategy to be well articulated by the Executive Directors. The Executive Directors' energy in driving the Group's purpose and ethos throughout the organisation was considered by the Board to be unifying and to set the stage for execution.

The 2020 Board strategy sessions were well received and seen as a key forum for Non-Executive Directors to contribute to the development of Group strategy.

In response to actions identified in the 2019 evaluation, the Board looked at industry trends as part of its review of the Group's digital strategy. The Remuneration Committee also continued its review of the reward strategy to support its ongoing effectiveness, including management pay comparator group benchmarking.

Action for 2021

- Additional time to be reserved on the Board agenda for deep dives on strategic objectives and review of major initiatives.

Risk management

The Board's monitoring of key risks and oversight of compliance is considered to be effective. In response to actions identified in the 2019 evaluation, the Board reviewed Group business continuity planning and management structures in the context of monitoring the Group's response to COVID-19. The Audit Committee also conducted detailed reviews of technology and risk topics.

Action for 2021

- Further enhance the Board's understanding of strategic opportunities and risks presented by evolving technologies.

Dynamics and information

Board and Committee meetings are considered to be chaired effectively, with Company Secretariat support well regarded. In response to actions identified in last year's evaluation, and to enable effective virtual Board meetings in a COVID-19 context, a greater emphasis was placed on focused pre-read and presentation materials. The fully virtual meeting format is viewed to have worked well for the Board given the operational constraints.

Action for 2021

- Further emphasis in the Board agenda on market analysis, competitor performance, and emerging issues.

Composition and succession

Overall diversity, skills, and experience of Board composition was viewed to have progressed well in 2020, despite disruption caused by COVID-19, with potential for Board expertise to be augmented further in strategic capabilities such as digital.

The Chairman succession process was considered to have been full and inclusive, involving all Board members. Nominations Committee oversight of executive talent management is well regarded and considered effective.

Action for 2021

- Strategic analysis of the profile, skills and experience required of Non-Executive Directors for future Board succession planning to be conducted by the Nominations Committee.



Composition, Succession, Evaluation

Nominations Committee



Richard Burrows
Chairman of
the Nominations
Committee

Nominations Committee current members

Richard Burrows (Chairman)	Luc Jobin
Sue Farr	Holly Keller Koepfel
Jerry Fowden	Savio Kwan
Karen Guerra	Dimitri Panayotopoulos
Dr Marion Helmes	Darrell Thomas

Attendance at meetings in 2020^{1(a)}, 2(a)

Name	Member since	Attended/Eligible to attend	
		scheduled	Ad hoc
Richard Burrows	2009	2/2	3/3
Sue Farr	2015	2/2	3/3
Jerry Fowden	2019	2/2	3/3
Karen Guerra ^{2(b)}	2020	0/0	3/3
Dr Marion Helmes	2016	2/2	3/3
Luc Jobin ^{1(b)}	2017	2/2	2/2
Holly Keller Koepfel	2017	2/2	3/3
Savio Kwan	2014	2/2	3/3
Dimitri Panayotopoulos	2015	2/2	3/3
Darrell Thomas ^{2(c)}	2020	0/0	0/0
Kieran Poynter ^{2(d)}	2010	1/1	0/0

Notes:

- Number of meetings in 2020: (a) the Committee held five meetings, three of which were ad hoc; and (b) Luc Jobin was recused from the ad hoc meeting in October and part of the ad hoc meeting in September which discussed succession planning for the role of Chairman.
- Membership: (a) all members of the Committee are independent Non-Executive Directors in accordance with UK Corporate Governance Code 2018 Provisions 10 and 17, applicable US federal securities laws and NYSE listing standards; (b) Karen Guerra became a member of the Committee on 14 September 2020 on her appointment as a Non-Executive Director; (c) Darrell Thomas became a member of the Committee on 7 December 2020 on his appointment as a Non-Executive Director. There were no scheduled or ad hoc Committee meetings following his appointment during the remainder of 2020; and (d) Kieran Poynter ceased to be member of the Committee on his retirement from the Board with effect from 30 April 2020.
- Other attendees: the Chief Executive, the Director, Talent, Culture & Inclusion, and Group Head of Talent & Organisation Effectiveness regularly attend meetings by invitation but are not members.

Nominations Committee terms of reference

The Committee's terms of reference align with the requirements of the Code. No changes were made to the Committee's terms of reference in 2020.



For the Committee's terms of reference
see [bat.com/governance](https://www.bat.com/governance)

Role

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

- reviewing the structure, size and composition of the Board and Management Board on a regular basis to ensure both have an appropriate balance of skills, expertise, knowledge and, in relation to the Board, independence;
- reviewing the succession plans for appointments to the Board, the Management Board and Company Secretary to maintain an appropriate balance of skills and experience and to ensure progressive refreshing of both the Board and the Management Board;
- making recommendations to the Board on suitable candidates for appointments to the Board, the Management Board and Company Secretary, ensuring that the procedure for those appointments is rigorous, transparent, objective and merit-based and has regard for diversity;
- assessing the time needed to fulfil the roles of Chairman, Senior Independent Director and Non-Executive Director, and ensuring Non-Executive Directors have sufficient time to fulfil their duties;
- overseeing the development of a pipeline of diverse, high-performing potential Executive Directors, Management Board members and other senior managers; and
- implementing the Board Diversity Policy and monitoring progress towards the achievement of its objectives, summarised on page 109.

Key Activities in 2020

- Identifying a successor to the Chairman and recommending to the Board the appointment of Luc Jobin as Chairman Designate from 1 March 2021, and to succeed Richard Burrows as Chairman from the conclusion of the 2021 AGM. This process was led by the Senior Independent Director and his report on this process is set out on page 106.
- Making recommendations to the Board in respect of Non- Executive Director and Board Committee appointments, including appointment of Karen Guerra as a Non-Executive Director and to the Remuneration and Nominations Committees and Darrell Thomas as a Non-Executive Director and to the Audit and Nominations Committees, discussed further on page 107.
- Making recommendations to the Board to appoint a new President and CEO of Reynolds American Inc. and a new Regional Director, Asia-Pacific and Middle East to the Management Board, with effect from 1 September 2020 as set out at page 95.
- Overseeing the Group's diversity & inclusion agenda, how this underpins the Group's strategic priorities for talent and culture, and progress across the Group in driving ownership and accountability for diversity and inclusion, building diverse talent pipelines and creating enablers across the organisation.
- Making recommendations to the Board in relation to Directors' annual appointment and re-election at the AGM, discussed further on page 107.
- Reviewing the Executive Directors' and Management Board members' annual performance assessments and assessing the progress of development plans for candidates for Management Board roles.
- Reviewing the Group's talent and culture strategic priorities, their alignment to Group strategy, and progress in the core focus areas of attracting the best talent, investing in leaders, leadership for change and empowering the organisation.
- Reviewing the Committee's effectiveness in 2020, following the Committee evaluation process, discussed further on page 104.

Composition, Succession, Evaluation

Chairman Succession



Chairman Succession Report

In February 2020, the Company announced its intention for Richard Burrows to retire from the Board at or prior to the Company's 2021 AGM, and that Richard would continue leading the Board until then.

The selection process for Richard's successor was initially led by Kieran Poynter, our Senior Independent Director until his retirement from the Board on 30 April 2020. I first worked alongside Kieran, to ensure an effective transition, and then took over leadership of the process in view of my succeeding Kieran as Senior Independent Director.

Throughout this process, our Nominations Committee, comprising all of the Non-Executive Directors, has been supported by our Talent, Culture & Inclusion Director and by the Company Secretary. In addition, the Committee has sought input from our Chief Executive and Finance Director where appropriate.

Spencer Stuart¹ and Korn Ferry² were engaged as independent search consultancies to support the process. Both firms are well-established, specialist executive search consultants with experience in chair recruitment. Engaging two independent consultancies assisted the Nominations Committee in conducting a fully international selection process, taking in a wide range of candidates, and informed by a breadth of market perspectives.

At the start of the selection process, a set of objective criteria were defined for the role, including the experience, competencies and personal attributes required to fulfil the role of chair and to lead the Board as the Group accelerates its transformation towards delivering A Better Tomorrow™.

The role criteria demanded a range of key experience and skills, including CEO and transformation leadership experience, North American market and consumer sector experience, and a strong understanding of the challenges, complexities and governance of highly regulated industries.

The role criteria also emphasised the importance of attributes such as an inclusive and collaborative leadership style, strong strategic and commercial acumen, and ability to constructively challenge. The role criteria were re-assessed and validated during the process in view of evolution of the Group's strategy, as presented in the Company's Annual Report and Form 20-F for 2019.

During the selection process, the Nominations Committee reviewed a long list of candidates and individual briefing reports against the role criteria, before defining an initial shortlist of candidates. The shortlist was further reviewed and updated in the course of the process to take account of new candidate availability.

All Nominations Committee members participated in a series of meetings with external and internal shortlisted candidates, giving thorough consideration to their skills, experience and diversity of attributes. In addition, the Executive Directors met with external and internal shortlisted candidates and provided their input to the Committee. The Nominations Committee benchmarked the skills, experience and attributes of Luc Jobin against a strong list of external and internal candidates identified and assessed during the process, and against the role criteria. Luc was recused from the process from the time at which he was identified as a candidate.

In October 2020, I chaired a meeting of the Committee (with Luc recused) at which we decided to recommend Luc's appointment as Chairman Designate, and then as Chairman, to the Board. The Board unanimously concluded that Luc's experience of enterprise transformation, extensive North American knowledge and cross-industry credentials made him the right candidate to succeed Richard as Chairman of the Board.

The Board determined Luc to be independent on his appointment to the Board in 2017 following the acquisition of Reynolds American, and that he continues to be independent in accordance with the UK Corporate Governance Code. In determining Luc to be independent, the Board has taken into account his prior period of service as an independent non-executive director of Reynolds American. In making this appointment, the Board also took into account Luc's external appointments and other professional commitments. The Board assessed Luc to be fully able to commit to the role of Chairman, which includes spending time as necessary in London and representing the Board internationally.

The Board unanimously considers Luc to be ideally placed to lead the Board. He is known for his judgement, integrity and inclusive style and has provided consistent support, insight and constructive challenge during the development of the Group's evolved strategy over the past three years.

The Board recognises and is grateful for the valuable contribution Richard has made to the Company during his distinguished tenure and we look forward to welcoming Luc as our new Chairman following our 2021 AGM.

Dimitri Panayotopoulos
Senior Independent Director

Notes:

1. Spencer Stuart & Associates Limited is an independent executive search consultancy compliant with the Standard and Enhanced Code of Conduct for Executive Search Firms. Spencer Stuart has no connections with the Company or its Directors other than in respect of provision of executive search services.
2. Korn Ferry (UK) Limited is an independent executive search consultancy compliant with the Standard and Enhanced Code of Conduct for Executive Search Firms. Korn Ferry has no connections with the Company or its Directors, other than in respect of the provision of executive search and other human resources advisory and consulting services.



Nominations Committee Continued

Board succession planning

The Board considers the length of service of the members of the Board as a whole and the need for it to refresh its membership progressively over time. The Nominations Committee is responsible for regularly reviewing the composition of the Board and Management Board to ensure both boards have an appropriate balance of skills, expertise and knowledge.

The Nominations Committee is also responsible for identifying candidates for Board positions and ensuring that all appointments are made on merit, against objective criteria, and with due regard for our Board Diversity Policy discussed on page 109. This process includes a full evaluation of candidates' attributes and how these would augment the Board's mix of skills, expertise and knowledge, and involves interviews with a range of candidates.

The Nominations Committee applied these principles in identifying and recommending Luc Jobin for appointment as Chairman and Karen Guerra and Darrell Thomas for appointment as Non-Executive Directors. External executive search consultancies are generally used to support chair and non-executive director appointments, in accordance with the UK Corporate Governance Code. In 2020, this was the case for the selection processes leading to the appointment of Luc as Chairman Designate, then as Chairman, and to the appointment of Karen as a Non-Executive Director.

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

Non-Executive Director appointments

The Committee led the selection process resulting to the appointment of Karen Guerra to the Board as a Non-Executive Director on 14 September 2020.

This process involved interviews with a range of external candidates involving all the Nominations Committee members, with thorough consideration given to their skills, expertise, diversity of attributes and their fit with the role criteria which included a specific requirement for a proven track record in consumer goods industries to complement the Board's existing expertise. This selection process was supported by Spencer Stuart¹, an independent executive search consultancy compliant with the Standard and Enhanced Code of Conduct for Executive Search Firms.

Karen brings a range of valuable international experience to the Board, particularly in marketing and consumer goods, and previously held a variety of executive roles including President and Director General of Colgate Palmolive France and Chairman and Managing Director of Colgate Palmolive UK. Her biography is set out on page 92.

The Committee also led the selection process resulting in the appointment of Darrell Thomas to the Board as a Non-Executive Director on 7 December 2020. As part of the selection process, interviews were undertaken involving all Nominations Committee members. Thorough consideration was given to a range of external candidates, their skills, expertise, diversity of attributes and their fit with the role criteria, which included specific requirements for strong financial and regulatory expertise.

Darrell brings extensive US business experience, along with financial and regulatory affairs expertise, and is currently Vice President and Treasurer for Harley-Davidson, Inc. His biography is set out on page 93.

Board retirements

Kieran Poynter retired from the Board with effect from the conclusion of the Company's 2020 AGM. Richard Burrows will step down as Chairman and will retire from the Board with effect from the conclusion of the Company's 2021 AGM, having served as a Director for just over 11 years.

Note:
1. Spencer Stuart & Associates Limited has no connections with the Company or its Directors other than in respect of provision of executive search services.

While the Code generally limits the tenure of the Chairman to nine years from first appointment, as noted in the Company's Annual Report and Form 20-F for 2019, the Board considered that Mr Burrows continuing as Chairman for a limited time to facilitate effective succession planning to be in the best interests of shareholders.

Terms of appointment to the Board

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

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

Annual General Meeting 2021

With the exception of Richard Burrows, the Company will be submitting all eligible Directors for re-election and, in the case of Karen Guerra and Darrell Thomas, election for the first time.

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

The Chairman's letter accompanying the 2021 AGM Notice confirms that all Non-Executive Directors being proposed for election or re-election (as applicable) are effective and that they continue to demonstrate commitment to their roles.

The format for the 2021 AGM will be contingent on applicable UK Government health and safety restrictions in place at that time.

Executive succession planning

As part of the Nominations Committee's responsibility to oversee the development of a pipeline of diverse, high-performing senior management, it reviews succession plans and talent pools at short and longer-term time horizons for the Executive Directors, other Management Board members, and certain other members of senior management. In 2020, these succession planning activities reinforced the importance of enhancing strategic capabilities and diversity in the talent pipeline.

The Board regularly reviews Group talent development more broadly, including progress on our talent and culture strategic priorities to:

- **attract the best talent**, including development of a strong employer brand and engagement with strategic talent pools;
- **invest in leaders and enable leadership for change**, guided by the BAT capabilities and skills framework. This emphasises development of digital and other strategic capabilities and is complemented by the Group's global talent exchange programme; and
- **empower the organisation**, by continuing to embed the BAT ethos across the Group, maintaining clear accountabilities and reducing organisational layers, supported by toolkits and training.

Our talent and culture strategic priorities are underpinned by our Group diversity and inclusion agenda, discussed on page 108. Progress in 2020 against our objective to develop a pipeline of diverse, high-performing senior managers is set out on page 109.



Composition, Succession, Evaluation

Nominations Committee

Continued

Balance and Diversity

The Board appreciates the benefits of diversity in all of its forms, within its own membership and at all levels across our organisation. Our Non-Executive Directors come from a broad range of industry and professional backgrounds, with varied experience and expertise aligned to the Group’s strategic agenda.

Biographies of the Directors, including a summary of their skills, experience and contribution brought to the Board are set out on pages 92 to 93.

The Hampton-Alexander Review sets recommendations aimed at increasing the number of women in leadership positions in FTSE 350 companies, including a target of 33% representation of women on FTSE 350 Boards by 2020.

Women currently represent 33.3% of our Board and 15.4% of our Management Board. Our Board’s ambition to progress towards further gender diversity is set out in our Board Diversity Policy, discussed on page 109.

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

Diversity and Inclusion Agenda

Our diversity and inclusion agenda focuses on the core areas of driving ownership and accountability, building diverse talent pipelines and creating enablers.

In the context of our talent and culture strategic priorities, the Board has oversight and monitors progress of our Group diversity and inclusion agenda. In 2020, this included:

- a review of the Group’s diversity and inclusion ambitions to 2025, with focus on diversity of experience, and enhanced gender and geographic representation, particularly in senior teams;
- updates on initiatives such as the Women in STEM programme, Women’s Returners Programme and unconscious bias awareness; and
- an overview of plans for enhanced talent mapping and voluntary declaration of diverse identities where permissible, aligned with recommendations set out in the Parker Review.

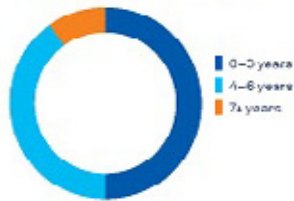
Our Strategic Report discusses our diversity & inclusion agenda and initiatives further, and provides details on the representation of women and different nationalities in our workforce, and in our senior manager population on pages 58 to 63.

Balance at 31 December 2020

Balance of Non-Executive Directors and Executive Directors



Length of tenure of Non-Executive Directors



Nationality of Directors



Directors: Ethnicity balance



Directors: Gender balance



Senior Management† and their direct reports: Gender balance



* Applying the Parker Report guidelines.

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



Board Diversity Policy

We believe that talent is our competitive advantage and diversity is a critical component of our success, providing better understanding, connectivity and insight to our consumers and our employees. 'We are diverse' is one of the five core elements of the BAT Ethos, set out on page 59.

Our commitment to promoting diversity across our organisation is also reflected in our Group Employment Principles, discussed further on pages 62 to 63. Diversity is taken into consideration in determining the composition of our Board and Management Board, through the application of our Board Diversity Policy.

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

Objectives and Progress Update

The objectives of our Board Diversity Policy and progress against these objectives in 2020 are set out below.

Objective	Progress in 2020
Considering all aspects of diversity when reviewing the composition of, and succession planning for, the Board and Management Board.	<ul style="list-style-type: none"> – The Nominations Committee has regard to diversity in its broadest sense, including attributes such as gender, race, ethnicity, cultural and social backgrounds, and other personal attributes, when undertaking these activities.
Considering a wide pool of candidates across genders for appointment to the Board.	<ul style="list-style-type: none"> – Executive search firms are engaged to support Board and Management Board succession planning where applicable and are required to provide gender-balanced shortlists of candidates. Succession planning for Executive Directors and Management Board members takes into account potential internal candidates from across the Group and potential external candidates.
Maintaining at least 30% female Board representation, with the ambition of progressing towards further gender balance.	<ul style="list-style-type: none"> – The representation of women on the Board was 33.3% as at 31 December 2020 (2019: 27.3%) and remains so currently. Non-Executive Director succession planning takes into account the Board's ambition to further improve gender diversity.
Giving preference, where appropriate, to engagement of executive search firms accredited under the Standard and Enhanced Codes of Conduct for Executive Search Firms.	<ul style="list-style-type: none"> – The executive search firms engaged to provide executive search services to support Board succession planning in 2020 were accredited under the Standard and Enhanced Codes of Conduct for Executive Search Firms.
Oversight of the development of a pipeline of diverse, high-performing potential Executive Directors, Management Board members and other senior managers.	<ul style="list-style-type: none"> – The representation of women on the Management Board was 15.4% as at 31 December 2020 (2019: 15.4%) and remains so currently. Management Board succession planning takes into account the ambition to progress towards improved gender diversity. – Emphasis is placed on building diverse talent pools at all levels of the organisation through recruiting, developing and retaining diverse and high-performing talent. – In 2020, 43% of the Group's external management recruits were women (2019: 45%), including 30% into senior leadership roles (2019: 24%), supporting continued introduction of strategic capabilities to drive business transformation. The Women in Leadership programme has been supporting the development of female employees across the Group for the last seven years. The Group also participates in various external initiatives to support diversity of high-potential managers. – Please refer to pages 58 to 63 for further information about the Group's Diversity and Inclusion agenda.

Audit, Risk, Internal Control

Audit Committee



Holly Keller Koeppel
Chairman of the
Audit Committee

Audit Committee current members

Holly Keller Koeppel (Chair)

Luc Jobin

Jerry Fowden

Darrell Thomas

Attendance at meetings in 2020

Name	Member since	Attended/Eligible to attend	
		Scheduled ^{1(a)}	Ad hoc
Holly Keller Koeppel ^{2(a),(b)}	2017	5/5	0/0
Jerry Fowden ^{2(a),(b)}	2019	5/5	0/0
Luc Jobin ^{1(b), 2(a),(b),(e)}	2019	4/5	0/0
Kieran Poynter ^{2(a),(d)}	2012-2020	2/2	0/0
Darrell Thomas ^{2(a),(c)}	2020	0/0	0/0

Notes:

- Meetings in 2020: (a) the Committee held five meetings in 2020; and (b) Luc Jobin did not attend the meeting in April due to prior commitments.
- Membership: (a) all members of the Committee are independent Non-Executive Directors in accordance with the UK Corporate Governance Code 2018 Provisions 10 and 24 and applicable US federal securities laws and NYSE listing standards. Each Committee member has been determined to meet the financial literacy requirements applicable under NYSE listing standards. Each member of the Committee has recent and relevant financial experience in accordance with the UK Corporate Governance Code 2018. The members of the Committee as a whole have competence relevant to the sectors in which the Group operates; (b) Holly Keller Koeppel, Jerry Fowden and Luc Jobin are each designated as an audit committee financial expert in accordance with applicable US federal securities laws and NYSE listing standards; (c) Darrell Thomas became a member of the Committee on 7 December 2020 on his appointment as a Non-Executive Director. There were no scheduled or ad hoc Committee meetings following his appointment during the remainder of 2020; (d) Kieran Poynter ceased to be member of the Committee on his retirement from the Board with effect from 30 April 2020; and (e) Luc Jobin will cease to be a member of the Committee on his appointment as Chairman.
- The Finance and Transformation Director attends all meetings of the Committee but is not a member. Other Directors may attend by invitation. The Director, Legal & External Affairs and General Counsel, the Group Head of Internal Audit and the external auditors also attend meetings on a regular basis.
- The Committee meets alone with the external auditors, and, separately with the Group Head of Internal Audit, at the end of every Committee meeting. The Committee also meets periodically with management.

Audit Committee terms of reference

The Committee’s terms of reference align with the requirements of the Code. No changes were made to the Committee’s terms of reference in 2020.



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

Introduction

I would like to introduce you to the 2020 Audit Committee report, setting out the Committee’s role and our activities during the year.

Maintaining a strong control environment in the midst of a global pandemic has been critical, and is an area where we have had continuing oversight as our business response to COVID-19 evolves.

We scrutinised key elements of our business continuity planning and implementation in 2020, and risks arising from the pandemic. The Committee placed particular emphasis on safeguarding our people and understanding the impact of rapid operational changes.

We regularly reviewed the Internal Audit plan in light of COVID-19, ensuring it remains risk-focused, flexible and responsible.

The Committee maintained rigorous oversight of SOx compliance, particularly in view of the challenges this year, including remote working.

In the context of external reporting, the Committee carefully considered the Group’s approach to clearly explaining the impact of COVID-19 on the Group’s operations and financial performance.

We were also pleased to welcome Darrell Thomas to the Committee in December.

Our activities during the year, including on climate change and human rights, are presented in further detail below.

Role

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

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

Key Activities in 2020

Regular work programme – reviewing:

- the Group’s annual results, half-year results, the application of accounting standards, and the external auditors’ reports where results are audited;
- the Group’s external auditors’ year-end audit, including the key audit matters, critical audit matters, materiality assessments and the Group’s control environment, and confirming the independence of the Group’s external auditors;
- the basis of preparation and accounting judgements;



- the steps taken to validate the Group's 'going concern' assessment at half-year and year-end and agreeing on the process and steps taken to determine the Group's viability statement at year-end;
- adjusting items, applicable accounting treatment and the use of alternative performance measures;
- the annual assessment of goodwill impairment;
- the accounting applicable to retirement benefits liabilities and assets;
- the Group's liquidity position, including the purchase or early redemption of Group debt, current facilities and financing needs;
- the internal processes followed for the preparation of the Annual Report and Form 20-F and confirming that the processes appropriately facilitated the preparation of an Annual Report and Form 20-F that is 'fair, balanced and understandable';
- the Group's Risk Register, including prioritisation and categorisation of Group risks, and mitigating factors in relation to those risks;
- specific risks, and their mitigations, including in relation to ESG, climate change and impact of COVID-19 on existing Group risks;
- regular reports from the Group Head of Internal Audit on the internal audits of markets, processes and operations, management responses to internal audit findings and action plans put in place to address any issues raised;
- the 2021 internal audit plan and progress against the 2020 plan;
- the Group's sustainability performance on an annual basis, including the Group's Youth Access Prevention activities and the Group's corporate social contributions in the focus areas of empowerment and sustainable agriculture & rural communities, in countries and communities in which the Group operates;
- periodic reports from the Group's Corporate Audit Committee and Regional Audit and Corporate Social Responsibility Committees;
- annual and interim reports on the Group Business Conduct & Compliance programme, Speak Up channels and compliance with the Group Standards of Business Conduct (SoBC);
- the annual report from the Group Head of Security on security risks, losses and fraud arising during the preceding year;
- half-year and year-end reports on political contributions; and
- the Committee's effectiveness, following the annual evaluation of the Committee discussed further at page 104.

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

- implementation of interest rate benchmark reforms: addressing the impact of replacing Interbank Offered Rates with alternative rates (see note 22 in the Notes on the Accounts), and reviewing the impact on Group accounting policies resulting from the Group's early implementation of the second phase of IASB amendments to IFRS 9 (*Financial Instruments*). This follows the Group's early adoption of the first phase of IASB amendments to IFRS 9 in its FY 2019 financial statements.

Significant accounting judgements considered by the Committee in relation to the 2020 financial statements:

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

- **contingent liabilities, provisions and deposits in connection with ongoing litigation:** Imperial Tobacco Canada: the Committee reassessed the accounting treatment in respect of all other ongoing tobacco-related litigation to which Group subsidiary Imperial Tobacco Canada (ITCAN) is a defendant and confirmed that it continued to be appropriate to make no provision in respect of that litigation, as it is not possible to reasonably estimate the amount of any potential settlement (see note 27 in the Notes on the Accounts) and that, whilst ITCAN is subject to the Canadian Companies' Creditors Arrangement Act ('CCAA') proceedings, it continued to be appropriate to consolidate ITCAN's financial results in the Group financial statements;

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

Impact of Russian tax assessments: the Committee considered the accounting treatment applicable to tax credits arising from the settlement of excise and VAT assessments in relation to Group operations in Russia between 2015 and 2017 for additional production volumes that took place prior to local excise tax increases, the charge for which was previously treated as an adjusting item in the 2019 Accounts. The Committee concurred with management's proposed treatment of those credits (see note 3 in the Notes on the Accounts). The Committee also considered the accounting treatment applicable to a Russian VAT refund claim which the Committee assessed should be treated as an adjusting item (see note 3 in the Notes on the Accounts);

Reynolds American Companies: the Committee considered and endorsed management's approach to accounting for the Master Settlement Agreement and the Engle class-action and progeny cases (see note 27 in the Notes on the Accounts); and

VAT on social contributions in Brazil: the Committee assessed the accounting treatment applicable to claims made by Group subsidiary BAT Brazil for refunds of VAT on social contributions made in Brazil (see note 27 in the Notes on the Accounts);

- **foreign exchange and hyperinflation:** as the Group has operations in certain jurisdictions with severe currency restrictions where foreign currency is not readily available, including in hyperinflationary territories such as Venezuela, the Committee assessed management's approach to applicable accounting treatment and confirmed that methodologies used to determine relevant exchange rates for accounting purposes were appropriate;
- **goodwill and intangibles impairment review:** the Committee reviewed management's assessments of the carrying value of intangibles, including goodwill. The Committee specifically considered the impact of COVID-19 on business performance and the carrying value of intangibles, including in relation to the Twisp business in South Africa (acquired by the Group in 2019) for which an impairment of intangibles, including goodwill, was recognised (see note 8 in the Notes on the Accounts). The Committee also reviewed the Group's overall business in South Africa, and concluded that no impairment to goodwill or other intangibles was required, taking into account trading performance since COVID-19 related restrictions on the sale of tobacco and vapour products were lifted in September 2020.



Audit, Risk, Internal Control

Audit Committee

Continued

Impairment review – Malaysia: the Committee reviewed the carrying value of goodwill for the Group's business in Malaysia and concurred with management's assessment that, due to the ongoing difficult trading environment, an impairment charge of £197 million was appropriate.

Impairment review – US Business: the Committee assessed there was no requirement to revise the impairment previously recognised for the acquired brand VapeWild (see note 3 in the Notes on the Accounts), and no requirement to recognise an impairment for other US business brands including Natural American Spirit.

Impairment review – New Categories: the Committee further assessed there was no requirement to revise the impairment previously recognised relating to rationalisation of certain New Categories brands, in view of the deferral of some local market migrations due to COVID-19.

Impairment review – Imperial Tobacco Canada (ITCAN): the Committee concluded that, despite the ongoing proceedings (including the CCAA process) in respect of Group subsidiary ITCAN, there was no indication of impairment to goodwill.

- **Quantum transformation project:** the Committee assessed the accounting treatment applicable to project implementation costs with a charge of £81 million recognised in 2020 and treated as an adjusting item (see note 3 in the Notes on the Accounts);
- **Tender offer for repurchase and early redemption of outstanding debt instruments:** the Committee reviewed the accounting treatment applicable to the repurchase and early redemption of £3.1 billion of outstanding bonds and concurred with management's judgement to treat the upfront charge to the income statement, reflecting the upfront premium paid to bondholders to tender, unwinding of derivatives, and other fees connected to the bond repurchase and redemption, as an adjusting item.

Other specific matters considered by the Committee:

- review of the Company's status as a Foreign Private Issuer for the purposes of US securities laws;
- progress on the Group's 'Delivery with Integrity' compliance programme (discussed further on pages 56 to 57) and monitoring SoBC incident reporting and the effectiveness of 'Speak Up' channels prior to review by the Board; and
- review of the outcomes from the 2020 assessments of key countries of concern to the Group from a human rights perspective, including local compliance with Group policies and standards and details of local measures in place to enhance human rights management.

Risk topics considered by the Committee included:

- oversight of management's activities to ensure ongoing compliance with US Sarbanes-Oxley Act of 2002 (SOx) (discussed further at pages 115 to 116);
- the Group's approach to maintaining a strong control environment during the COVID-19 pandemic, taking into account the shift to remote working, operations in business continuity mode, and the impact of COVID-19 on implementation of the Internal Audit plan;
- assessing risks relating to the COVID-19 pandemic and its impact on the Group, with particular focus on the key themes of supply chain contingency sourcing, Group preparedness for continuation of factory capacity and remote working for office-based staff, and financial preparedness in relation to the Group's liquidity and funding position, and assessing emerging risks anticipated in transitioning to a new normal working environment;

- risk in relation to climate change and its impact on the Group, to ensure robust processes are in place to manage both physical and transitional climate change risks (in compliance with the Green Finance Strategy published by the UK Government in July 2019 setting out expectations for listed companies to disclose in accordance with TCFD recommendations), and recognition of a new risk relating to climate change in the Group's Risk Register;
- assessing risks related to ESG and impact on the Group, to ensure appropriate internal standards, strategic plans, governance, monitoring and reporting mechanisms are in place to identify emerging issues, meet external expectations and align with recognised international standards, and incorporation of ESG factors into existing Group risks;
- revisions to the Group's risk appetite framework as it relates to the Group's strategic objectives and regular review of emerging risks to the Group prior to Board consideration;
- the report on the effectiveness of the Company's risk management system;
- risks associated with continued exposure to interest rate changes on net finance costs, arising from existing and future refinanced debt;
- periodic reassessment of the risks faced by the Group as a consequence of the UK's exit from the EU ('Brexit') in the context of the Group Risk Register, including risks relating to increased costs of capital, foreign exchange rate exposures, supply chain continuity, taxation and changes in customs duty, and talent acquisition and retention;
- Group anti-bribery and anti-corruption and sanctions controls and compliance programme; and
- the status of the ongoing Canadian CCAA proceedings under which Group subsidiary ITCAN filed for protection in March 2019 following the judgment of the Quebec Court of Appeal in the Quebec Class Action lawsuits (see note 27 in the Notes on the Accounts).

For further information please refer to the Group Principal risks on pages 84 to 88 and the Group risk factors on pages 288 to 306

External Auditors

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

The Committee considers the relationship with the auditors to be working well and remains satisfied with their effectiveness. In view of this, and having considered the continued independence and objectivity of the auditors, the Committee considers it to be in the best interests of the Company's shareholders for KPMG to remain as auditors for the following financial year.

The Committee will continue to monitor this, taking into account the effectiveness and independence of the auditors and the best interests of shareholders, and will ensure that an audit tender is conducted no later than in respect of the 2025 financial year in accordance with applicable law and regulations.

UK Competition and Markets Authority Audit Order
The Company has complied with the Statutory Audit Services Order issued by the UK Competition and Markets Authority for the financial year ended 31 December 2020.



Group Auditor Independence Policy (AIP)

The Group has an established AIP, reflecting the requirements of applicable laws, to safeguard the independence and objectivity of the Group's external auditors and to specify the approval processes for the engagement of the Group's external auditors to provide audit, audit-related and other non-audit services. The key principle of the AIP is that the Group's external auditors may only be engaged to provide services in cases where the provision of those services does not impair auditor independence and objectivity. The Committee recognises that using the external auditors to provide services can be beneficial given their detailed knowledge of our business. However, the AIP does not permit the Committee to delegate its responsibilities to the external auditors and the external auditors are only permitted to provide audit, audit-related and non-audit services in accordance with the AIP.

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

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

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

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

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

The AIP:

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

External audit fees

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

A breakdown of audit, audit-related, tax and other non-audit fees paid to KPMG firms and associates in 2020 is provided in note 3(c) in the Notes on the Accounts and is summarised as follows:

Services provided by KPMG firms and associates 2020

	2020 £m	2019 £m
Audit services	18.6	15.8
Audit of defined benefit schemes	0.5	0.4
Audit-related assurance services	8.5	8.5
Total audit and audit-related services	27.6	24.7
Other assurance services	0.5	0.5
Tax advisory services	–	–
Tax compliance	–	–
Other non-audit services	–	–
Total non-audit services	0.5	0.5

Note:

In 2020, non-audit fees paid to KPMG amounted to 1.8% of the audit and audit-related assurance fees paid to them (2019: 2.0%). All audit and non-audit services provided by the external auditors in 2020 were pre-approved by the Committee.

External auditor effectiveness

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

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

The Committee's assessment is also informed by an external audit satisfaction survey completed by members of the Group's senior management. No material issues were identified during the external auditor assessment in 2020. The Committee is satisfied with the qualification, expertise and resources of its external auditors, and that the objectivity and independence of its external auditors are not in any way impaired by the non-audit services which they provide. The Committee has recommended to the Board the proposed re-appointment of KPMG at the 2021 AGM.

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

Audit, Risk, Internal Control

Audit Committee Continued

FRC Audit Quality Review

The UK Financial Reporting Council (FRC) Audit Quality Review (AQR) team selected the audit of the Group's financial statements for the year ended 31 December 2019 for review as part of their annual inspection of audit firms. The AQR covered the audit work at Group level and included goodwill and indefinite life trademarks impairment analysis, the Group audit team's oversight of the work of the component auditors for contingent liabilities arising from litigation in Canada, provisions and contingent liabilities arising from other litigation, communications with the Committee and matters relating to planning, completion, ethics and quality control.

The Committee reviewed and discussed the scope of the AQR, the AQR report conclusions and the actions that will be taken in response to the AQR findings with KPMG. Whilst none of the findings were regarded by the Committee as significant, some matters were identified as requiring limited improvement and the Committee is satisfied with the responses implemented by KPMG in the audit of the Annual Report and Accounts for 2020.

Risk Management and Internal Control

Overview

The Company maintains its system of risk management and internal control with a view to safeguarding shareholders' investment and the Company's assets. It is designed to identify, evaluate and manage risks that may impede the Company's objectives. It cannot, and is not designed to, eliminate them entirely. The system therefore provides a reasonable, not absolute, assurance against material misstatement or loss. A description of the principal risks that may affect the Group's business is provided in our Strategic Report on pages 84 to 88.

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

Board oversight

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

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

Audit and Corporate Social Responsibility (CSR) Committee framework

The Group's Regional Audit and CSR Committee framework underpins the Audit Committee. It provides a flexible channel for the structured flow of information through the Group, with committees for each of the three Group regions, for the US business, and for locally-listed Group entities and specific markets where considered appropriate.

The Regional Audit and CSR Committees are supported by Risk and Control Committees established at business unit level, and within certain Group functions where considered appropriate.

This framework ensures that significant financial, social, environmental and reputational risks faced by the Group are appropriately managed and that any failings or weaknesses are identified so that remedial action may be taken. The Group's Regional Audit and CSR Committees are all chaired by a member of the Management Board and regularly attended by one or more Non-Executive Directors. In addition, the Corporate Audit Committee focuses on the Group's risks and control environment that fall outside the regional committees' remit, for example head office central functions, and global programmes, processes and projects. It comprises members of the Management Board and is chaired by a Regional Director. One or more of the Non-Executive Directors also regularly attend meetings of the Corporate Audit Committee.

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

Risk management

Risk registers, based on a standardised methodology, are used at Group, functional, directly-reporting business unit (DRBU), and individual market levels to identify, assess and monitor the risks (both financial and non-financial) faced by the business at each level. Risks are assessed and prioritised at three levels by reference to their impact (high/medium/low) and likelihood (probable/possible/unlikely). During 2020, the Group's risk management process was digitalised through deployment of an enterprise resource management system across the Group.

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

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

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 Company's 2020 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. The Group's current principal risks remain broadly unaltered from 2019.



For more information on risks see the Group Principal Risks on pages 84 to 88 and the Group risk factors on pages 288 to 306



Internal control

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

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

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

Internal Audit function

The Group's Internal Audit function is responsible for carrying out risk-based audits of Group companies, business units, and global processes. A separate Business Controls Team provides advice and guidance on controls to the Group's businesses.

The Group's Internal Audit function works to a rolling 18-month audit plan, prioritising principal risk areas aligned to the Group's Risk Register. During 2020, the Internal Audit plan was kept under regular review with the Committee to enable audit reprioritisation in view of COVID-19 and resulting constraints, such as travel restrictions.

In 2020, internal audits covered various markets, Group manufacturing facilities and leaf buying operations, New Categories, supply network and retail operations, functional transformation programmes, global business services, and IT infrastructure, cyber security and data protection. The Committee considered internal audit findings and action plans established to address any issues identified.

The Committee has approved the Internal Audit plan for 2021 and assessed its alignment with the Group's Risk Register and coverage of risks to the Group. The strategic priorities for Internal Audit underpin the design of the Internal Audit plan for 2021, with emphasis on New Categories and innovation in ways of working, whilst maintaining thorough coverage of core business activities, lines of defence and IT controls. The Internal Audit plan for 2021 takes account of anticipated continued COVID-19 travel restrictions into 2021, and balances remote fieldwork and use of data analytics with focused site visits. The scope of each internal audit is assessed for SOx impact and audit of applicable SOx controls is included where relevant. Reviews of SOx controls and their effectiveness are primarily conducted by the Group's Business Controls Team and assurance is also undertaken by the Group's external auditors, as noted below.

The Committee reviews the effectiveness of the Group's internal audit function annually. In 2020, this included a review of progress on the Internal Audit plans to implement the recommendations arising from the external quality assessment of Internal Audit conducted by PwC LLP in 2019. The Committee also approved an updated Internal Audit Charter, aligned to the Internal Audit strategy. The Committee considers the Internal Audit function to be effective and to have the necessary resources to enable it to fulfil its mandate.

Financial reporting controls

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

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

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

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

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

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

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

The Committee Chair participated in the 2020 Annual Report and Form 20-F drafting and review processes, and engaged with the Finance and Transformation Director and the Group Head of Internal Audit during the drafting process.

SOx compliance oversight

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



Audit, Risk, Internal Control

Audit Committee

Continued

The Committee has oversight of processes established to ensure full and ongoing compliance with applicable US securities laws, including SOx. Two committees provided assurance during 2020 with regard to applicable SOx certifications. The Disclosure Committee reviews the Company's financial statements for appropriate disclosure and designs and maintains DCPs and reports to, and is subject to the oversight of, the Chief Executive and the Finance and Transformation Director. A sub-committee of the Disclosure Committee, the SOx Steering Committee, provides assurance that ICFR have been designed, and are being implemented, evaluated and disclosed appropriately, in accordance with applicable requirements and subject to the oversight of the Chief Executive and Finance Director. The activities of this sub-committee are directly reported to the Disclosure Committee.

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

In 2020, the Committee also reviewed the scope of the external auditors' SOx procedures, and received reports on their progress with their independent assessment of ICFR across the Group.

Code of Ethics for the Chief Executive and Senior Financial Officers

The Company has adopted a Code of Ethics applicable to the Chief Executive, the Finance and Transformation Director, and other senior financial officers, as required by US securities laws and NYSE listing standards. No waivers or exceptions to the Code of Ethics were granted in 2020.

Annual review

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

The processes described above, and the reports that they give rise to, enable the Board and the Committee to monitor risk and internal control management on a continuing basis throughout the year and to review its effectiveness at the year-end. The Board, with advice from the Committee, has completed its annual review of the effectiveness of that system for 2020.

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

Group Standards of Business Conduct

The Committee is responsible for monitoring compliance with the SoBC, and reports on this to the Board. The SoBC requires all staff to act with a high degree of business integrity, comply with applicable laws and regulations, and ensure that standards are never compromised for the sake of results. Every Group company and all staff worldwide, including senior management and the Board, are expected to adhere to the SoBC. The SoBC and the Group's Delivery with Integrity compliance programme are discussed on pages 56 to 57.

All Group companies have adopted the SoBC or local equivalent. Information on compliance with the SoBC is gathered at a regional and global level and reports of SoBC allegations, including details of the channels through which allegations are reported, are provided on a regular basis to the Regional Audit and CSR Committees, Corporate Audit Committee, and to the Committee. A breakdown of SoBC contacts and SoBC allegations reported across the Group in 2020 is set out on page 57.

The SoBC and information on the total number of SoBC contacts and SoBC allegations reported in 2020 (including established breaches) is available at bat.com/sobc.

Speak Up

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

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



Further information about the Group's Speak Up channels and Speak Up reports in 2020 is provided at page 57

Political contributions

The Group does not make contributions to UK or European Union (EU) political organisations or incur UK or EU political expenditure. The total amount of political contributions made to non-UK and non-EU political parties in 2020 was £4,851,616 (2019: £4,466,171) as follows:

Reynolds American Companies reported political contributions totalling £4,851,616 (US\$6,229,475) for the full year 2020 to US political organisations and to non-federal-level political party and candidate committees in accordance with their contributions programme. No corporate contributions were made to federal candidates or party committees and all contributions were made in accordance with applicable laws.

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

In accordance with the US Federal Election Campaign Act, Reynolds American Companies continue to support an employee-operated Political Action Committee (PAC), a non-partisan committee registered with the US Federal Election Commission that facilitates voluntary political donations by eligible employees of Reynolds American Companies. According to US federal finance laws, the PAC is a separate segregated fund and is controlled by a governing board of individual employee-members of the PAC. In 2020, Reynolds American Companies incurred expenses, as authorised by US law, in providing administrative support to the PAC.

No other political contributions were reported.



Remuneration Report

Annual Statement on Remuneration



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The following Annual Report on Remuneration has been prepared in accordance with the relevant provisions of the Companies Act 2006 and as prescribed in The Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013 (the UK Directors' Remuneration Report Regulations).

Introduction

I am pleased to present to you the Directors' Remuneration Report for the year ended 31 December 2020 which sets out our role and work during this year, during which we welcomed Karen Guerra to the Committee. The report contains:

- a summary of the current Directors' Remuneration Policy, approved at the 2019 AGM; and
- the Annual Remuneration Report, explaining how the Remuneration Policy has been implemented during 2020, and how it will be implemented in 2021.

When the Committee met in early 2020, the COVID-19 outbreak was in its very early stages, it had not been declared a pandemic and the magnitude of the impact it would have across the world was not yet apparent. Along with many other organisations, we now find ourselves in a very new and challenging operating environment.

The impact of COVID-19 on our organisation in 2020 has been significant and wide ranging. We are tremendously proud of how the Group's employees have responded in the face of unprecedented circumstances and widespread disruption, demonstrating resilience and continued focus on delivering growth while rapidly adjusting to new ways of working across our business.

In line with our Ethos, the Group's response to the COVID-19 pandemic has been focused on looking after our people and protecting their health, safety and wellbeing while acting swiftly to support those in the communities in which we operate. Even in light of the widespread disruption caused by the COVID-19 pandemic, the Group has not entered furlough arrangements or made redundancies as a result of the pandemic, nor do we have plans to do so. We are committed to emerging stronger from the pandemic through our focus on our people, consumers and customers around the world.

Remuneration and strategy

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

- attract and retain top quality talent in the global marketplace;
- promote and reward high levels of sustainable long-term performance in both an appropriate and competitive manner to the benefit of shareholders and wider stakeholders;
- create close, long-term links between the Company's senior management and its shareholders; and
- incorporate best practice policy features into its remuneration strategy while maintaining policy elements which remain appropriate for the Company.

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

Our talent attraction landscape is global and has become increasingly diverse as the Group's business continues to transform. It is essential that we have the right framework and practices in place to attract talent globally. In this context, geographic differences in pay levels present challenges for the Group, considering the international mobility of the global senior talent pool. As a substantial part of our business is based in the US, the significant pay differential between the US market and the UK continues to be a specific challenge which we continue to keep under close review.

The Committee looks to ensure that the performance metrics for the short and long-term incentive schemes continue to be aligned to objectives integral to the Company's long-term strategy. Performance measures are reviewed every year to ensure the Company is providing focus, incentivising the right behaviours and creating value.

To that end, we have engaged with our largest shareholders regarding the focus and orientation of the short-term incentive (STI) scheme and following this engagement, the Committee has decided to make some important changes to the performance metrics for 2021. The changes are made with the aim of reflecting our corporate purpose in the Group's remuneration strategy and our commitment to reduce the health impact of our business as part of our A Better Tomorrow™ agenda. These take into account shareholder feedback and focus on harm reduction as a key area to deliver sustainable growth for the future, as follows:

- The introduction of a new metric 'New Categories Revenue', with a 20% weighting attached to it. This metric is aligned with our transformation ambitions and stated targets and will measure future growth in our New Categories business, further details are provided on page 277.
- The 'Group share of key markets' metric is retained, with Tobacco Heating Products (THP) share performance now included for major markets and consequently the weighting will be adjusted from 10% to 15%.
- The 'deleveraging excluding foreign exchange' metric is retained with the weighting adjusted from 30% to 35%.
- The 'adjusted profit from operations' metric is retained with the current weighting of 30%.
- Consequently, the 'adjusted revenue growth from the strategic portfolio' metric will be removed from the International Executive Incentive Scheme (IEIS) to allow for an increased weighting for measures of performance in New Categories.



Remuneration Report

Annual Statement on Remuneration Continued

These changes to performance metrics will apply to the STI scheme in operation for the Executive Directors and the Group's wider management population. Importantly they will ensure that non-combustibles performance is embedded in 35% of the total short-term incentive scheme opportunity.

These changes will also ensure the Group has a consistent STI footprint globally to provide focus and alignment with Group strategy and to promote effective engagement and collaboration across its global management population. These are set out in full on page 122.

We consider the changes to the IEIS to be a first step to reflect the Group's transformation agenda in our remuneration plans. We will continue to appraise our remuneration plans and alignment to our A Better Tomorrow™ agenda during 2021 as we prepare a new Directors' Remuneration Policy for 2022.

Stakeholder engagement

The Board takes its corporate responsibilities very seriously. Our programme of shareholder and wider stakeholder engagement in 2019 contributed to re-shaping our Directors' Remuneration Policy and this dialogue continued in 2020 in relation to implementation of the Remuneration Policy for the Executive Directors.

The Committee recognises the complexity of the world in which we operate, never more so than in the current market context. Engagement with shareholders and stakeholders often gives rise to varied and conflicting perspectives, as has been our experience during 2020. Following the Company's AGM held in April 2020, we acknowledged the vote of 38.06% against the Director's Remuneration Report in our voting results announcement. We have engaged with a number of shareholders that voted against this resolution to understand their position and perspectives on the management of salary increases and executive pay within the current market context in particular. The Committee has discussed the feedback received in detail and the matters raised by shareholders have remained under active consideration as we reviewed Group performance in 2020.

As mentioned above, we have recently engaged with our largest shareholders regarding the STI scheme metrics for 2021 and shareholder feedback has helped to shape the focus and orientation of the scheme for the year ahead, with a particular focus on the Group's transformation.

I would like to thank our shareholders and wider stakeholders for their feedback, and we will maintain dialogue on our Remuneration Policy and practices.

Group performance

Our incentive plans are closely aligned to our strategy and the performance metrics underpinning those incentive plans align with the key performance indicators set out in the Strategic Report. The Group has delivered a strong performance for 2020 in what has proven to be an exceptionally challenging environment arising from the COVID-19 pandemic. Stretching performance targets for 2020 were set by the Committee prior to the COVID-19 outbreak being declared a pandemic and have remained unchanged for the Directors for the 2020 performance period.

The Group has delivered significant combustibles and THP volume share gains of 33bps over performance in 2019 together with a strong performance in adjusted revenue growth at constant rates of 7.0% from the Strategic Portfolio, including growth in New Categories revenues at constant rates of 15.4%. The Group has delivered growth in adjusted profit from operations at constant rates of 4.8% and continued to make progress with its deleveraging (excluding foreign exchange) ambition with a full year performance of 0.33x. In addition, the Group has delivered a compound annual growth rate in adjusted, diluted EPS of 5.5% at current rates through the three year 2018 to 2020 period.

These results are reflected in the outcomes for the Group's STI, the IEIS, for which the corporate result across the four measures (Group's share of key markets, adjusted revenue growth from the strategic portfolio, adjusted profit from operations and deleveraging excluding foreign exchange) was 71.1%.

The 2018 Long-Term Incentive Plan (LTIP) award, based on results across relative Total Shareholder Return (TSR), adjusted diluted EPS, adjusted revenue growth at constant rates and the operating cash flow conversion ratio, will vest in March 2021 at 52.6%.

The Remuneration Committee has considered the vesting result and concluded that this is an accurate reflection of the strong, sustained underlying performance of the Group in challenging and volatile market conditions. It also reflects, through the relative TSR measure, the movement in the Group's share price during the performance period. Consequently, the absolute value attached to the awards at the close of the three-year performance period is circa 64% lower than the face value of the 2018 awards at grant.

Following the determination of the outcomes for both the 2020 IEIS and 2018 LTIP, the Committee considered the results against the underlying performance of the Group and considered that the outcomes were a fair reflection of performance and no adjustments were required. In addition, share price fluctuations are reflected throughout the directors' remuneration, in the vesting and holding periods as well as their individual shareholdings. The performance of our key metrics that delivered the IEIS and LTIP remuneration outcomes are summarised on page 124.

Executive Director remuneration

The Committee has given very careful consideration to the total remuneration positioning of the Executive Directors in the context of their current positions relative to the market, development in their roles, individual performance and the level of pay increases for UK employees generally, together with the expectations of shareholders with respect to the management of executive pay. Pay increases for UK employees are expected to range between 0% and 7%, based on performance in the prior year, with the average of employee increases falling within the 2.6% to 3.0% range.

The Remuneration Committee has decided that the salary increase for the Chief Executive will be 3%, which is within the range to be applied to the majority of employees. The increase has been awarded to recognise the leadership of the Chief Executive in 2020, where Jack Bowles has led the Group to deliver a strong financial performance through an intense period of disruption while continuing to progress with the transformation agenda of the Group. The Group has delivered productivity improvements and savings through Quantum and has continued to establish new capabilities as part of the A Better Tomorrow™ agenda while safeguarding the organisation through skilful management in a time of crisis. Consequently, with effect from 1 April 2021 Jack Bowles' salary will be £1,325,610.

Mr Marroco's salary increase was considered by the Committee following the recent extension of his responsibilities, which are both material and permanent. In order to accelerate the delivery of the transformation agenda and the realisation of our corporate purpose, the scope of Mr Marroco's role has been expanded to become Finance and Transformation Director as set out on page 92 of the report.

In addition to his role as Finance Director, Mr Marroco has been asked to design and deliver a strategic initiative which will accelerate the delivery of the Group's strategy and ambitions as part of the A Better Tomorrow™ agenda. The associated scope is broad and multifunctional in nature, with the principal objective of accelerating the Group's transformation to become a multi-category business.

We believe the accountabilities of this new role go significantly beyond those that would normally be associated with the Finance Director position.



Mr Marroco will oversee five cross-functional and interconnected workstreams (the Group's innovation, organisation, sustainability, digital and productivity strategies), the orchestration of which will accelerate the Group's imperatives of combustible value growth, a step change in New Categories performance and a simpler and smarter organisation. The commercial aspirations include the growth of New Categories revenues to £5 billion by 2025 and the growth of new non-combustibles consumers from 13.5m to 50m by 2030. In addition, the leadership structure reporting to Mr Marroco has been substantially expanded in light of his enlarged role. In the past, the Group has established a standalone role within the executive team to lead these initiatives; the integration with Mr Marroco's current responsibilities is viewed as a stronger proposition in order to accelerate delivery.

Following consultation with some of our largest shareholders, the Committee has considered how to address this expansion of responsibilities. We are pleased that shareholders have acknowledged the substantive changes to Mr Marroco's role and the significance of this change for the Group's transformation agenda. We have taken feedback from shareholders into account in deciding to implement a two-step salary increase for Mr Marroco, as follows:

- A 4% increase from 1 October 2020, the date upon which Mr Marroco assumed these new responsibilities, that results in a base salary of £803,400, with no further increase in salary in April 2021; and
- An increase from 1 April 2022 equal to the average increase for UK employees plus 3%, subject to continued development and sustained performance in role.

This staged approach will enable the Committee to monitor sustained performance, together with market developments.

At the time of Mr Bowles' and Mr Marroco's appointments, the Committee set remuneration at a level to reflect that these were their first Executive Director appointments, and significantly below the level for the previous incumbent in each role and in the wider market. As previously communicated, the Committee intends to keep their remuneration positioning under review, to ensure their remuneration progresses in line with development and performance such that it may be brought more closely into line with the market over time. The Committee may determine it appropriate to award increases above the average for UK employees in the future but within the range of increases for the wider UK population, subject to the performance and development of the Executive Directors in their roles and taking into account pay considerations for our wider workforce. The adjustments to salary for Mr Marroco are consistent with these principles and this approach is consistent with how the remuneration of employees across the Group is reviewed as they develop and progress in their roles.

Incentive plan awards from 2021

The basis for awards made under the LTIP in 2021 will follow the Company's practice where the share price for new awards is an average of the mid-market price across the three trading days prior to the award being made. The Committee is satisfied that maintaining this established practice will result in awards which are in proportion with previous awards made to the Executive Directors and the Committee retains discretion to review formulaic LTIP outcomes at vesting.

Pay and transparency

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

This report includes our CEO-to-employee pay ratio for the 2020 financial year. We have continued to use calculation method A, using total full-time remuneration for all UK employees, which we believe to be the most robust and comprehensive means of assessment and is also reflective of shareholder preferences.

The Group's CEO-to-employee pay ratio for 2020 was 66:1 at the median level, reflecting the diversity of our business footprint and employee population across the UK. Further details can be found on page 130.

In March 2021, we will be publishing data relating to UK Gender Pay in line with the statutory requirements. Following a review of the data prior to publication, the Committee noted that while men and women are rewarded equally for similar roles, the Group does have a 'gender pay gap' as defined by UK legislation. The pay gap is largely a reflection of having more men than women in senior roles and the Group has a comprehensive set of diversity initiatives in place to drive progress in this area. These are explained further on pages 108 and 109 and in our Gender Pay Report and our work with the diversity and inclusion agenda will continue to broaden in 2021 as we now start the data gathering exercise for ethnicity pay data.

As a result of our continued focus we have seen an increase in the proportion of women in our upper pay quartile in 2020, from 27% to 29%, contributing towards a 6% improvement in our mean pay gap. On the other hand, the combination of a higher number of men recruited into senior roles during the April to April reporting period and more women recruited into junior roles in 2020 has led to our median pay gap widening slightly from 33% to 35%. We are confident that this is only a short-term development and, as we develop and nurture our female talent into more senior, higher-paid roles, we expect to see an improvement over the longer term.

Other initiatives in 2020

Building on its work during 2019, the Committee has continued to review the Group's remuneration strategy and related practices for its wider workforce. In this transformative period for the Group, there has been significant change in our talent attraction landscape and capability requirements, and the Committee recognises the importance of flexibility in our remuneration practices to remain agile and adaptive to changes in our business.

The Committee has undertaken a focused review of our pay comparator group to ensure it reflects the Group's increasingly diverse capability requirements in the international talent marketplace. As a result of this review, a new comparator group will be implemented throughout the Group for 2021 which we believe is better suited to support our talent attraction and retention ambitions. Changes to the pay comparator group will apply to the Executive Directors and the Group's wider management population.

Following a detailed review of the Group's legacy defined benefit pension arrangements in the UK and a programme of consultation with employees, the defined benefit pension arrangements in the UK closed to future accrual in 2020. This means there is now an aligned, consistent defined contribution retirement benefit arrangement in place for all UK employees.

Our focus in 2021

The annual report on remuneration details remuneration in 2020 and the decisions made by the Remuneration Committee during this period and will be put forward for an advisory vote at the 2021 AGM. The Board places great value on the direct engagement and feedback from our shareholders and wider stakeholders on our Remuneration Policy and practices and I look forward to continuing this dialogue in 2021.

Dimitri Panayotopoulos

Chairman, Remuneration Committee

16 February 2021



Remuneration Report

Annual Statement on Remuneration Continued

1 Summary of our Directors' Remuneration Policy

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

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

To assist in reviewing our Annual Report on Remuneration, we have summarised the key elements of the Directors' Remuneration Policy as it principally applies to remuneration paid during 2020.

Directors' Remuneration Policy summary: our remuneration strategy

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

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

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

Strategic Purpose

Key Features

Strategic Purpose	Key Features
Salary To attract and retain high-calibre individuals to deliver the Group's long-term strategy and to offer market-competitive levels of guaranteed cash to reflect an individual's skills, experience and role within the Group.	<ul style="list-style-type: none"> – Normally paid in 12 equal monthly instalments during the year; – Reviewed annually in February (changes effective from April) or subject to ad-hoc review on significant change of responsibilities; – Reviewed taking into consideration several factors including individual performance and appropriate market data based on a Pay Comparator Group; – Annual increases will generally be in the range of the increases in the base pay of other UK-based employees in the Group and will not exceed 10% per annum; and – Recently appointed Executive Directors' base salaries may exceed the top of the range of the salary increases for UK-based employees where the Remuneration Committee considers it appropriate to reflect the accrual of experience.
Benefits To provide market-competitive benefits consistent with the role which: <ul style="list-style-type: none"> – attract and retain high calibre individuals to deliver the Group's long-term strategic plans; and – recognise that such talent is global in source and that the availability of certain benefits (e.g. relocation, repatriation, taxation compliance advice) will from time to time be necessary to avoid such factors being an inhibitor to accepting the role. 	The Company offers the following contractual benefits to Executive Directors: <ul style="list-style-type: none"> – A car or car allowance (maximum annual value £20,000); – Use of a car and driver for personal and business use; – Employment tax advice (as required but not exceeding £30,000 per annum); – Tax equalisation payments (where appropriate); – Private medical insurance, including general practitioner 'walk in' medical services; – Personal life and accident insurance (designed to pay out at a multiple of four and five times base salary, respectively); – Housing, education allowances or similar arrangements as appropriate to family circumstances; and – Other benefits may include Executive Directors and their partners' attendance at hospitality or similar functions, and the provision of benefits which may be treated as benefits for tax purposes, such as the provision of home security and reimbursement of expenses incurred in connection with their duties.
Pension To provide competitive post-retirement benefit arrangements which recognise the external environment in the context of attracting and retaining senior high calibre individuals to deliver the Group's long-term strategy.	<ul style="list-style-type: none"> – Only base salary is pensionable. – Defined Contribution ("DC") benefits – Executive Directors are eligible to receive a pension benefit equivalent to a maximum of 15% of base salary as a contribution into the British American Tobacco UK Pension Plan or, as alternative provision, they can opt for either a cash allowance or accrual in a DC unfunded arrangement. The Company contribution rate is aligned with the benefit available to our wider UK population where the default contribution rate is 15%, comprising of a core 10% contribution rate and an additional 5% contribution on a matching basis to an employee's pension contribution.



Short-term incentives (STI)

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

Opportunity

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

Operation

- 50% of the incentive delivered as cash; 50% as deferred shares (DSBS) which vest after three years. Deferred shares attract a dividend equivalent which is delivered in additional quarterly interim dividend equivalent shares;
- The Remuneration Committee sets the performance targets each year at the beginning of the performance period and is able to vary the exact measures and the weighting of them from year to year;
- Performance measures for 2020 can be found on page 126 and for 2021 on page 131;
- The Remuneration Committee has discretion to adjust outcomes in circumstances where it considers it is appropriate to do so to reflect the overall performance of the Company;
- In cases of identified poor individual performance, the corporate result may be reduced by up to 50%; and
- Clawback and malus provisions are in place.

Long-term incentives (LTIP)

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

Opportunity

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

Operation

- LTIP awards vest only to the extent that:
 - the performance conditions are satisfied at the end of the three-year performance period; and
 - an additional vesting period of two years from the third anniversary of the date of grant has been completed;
- Dividend equivalent shares are awarded at the end of the extended vesting period to the extent that the awards vest;
- The Remuneration Committee sets the performance targets for the applicable performance period each year;
- Vesting levels are based on the achievement of appropriately stretching targets against performance measures aligned to the Group's long-term strategy;
- Performance measures for the 2018-2020 performance period are detailed on page 127 and for the awards to be granted in 2021 are detailed on page 132;
- The Remuneration Committee has discretion to adjust the level of vesting in circumstances where it considers it is appropriate to do so to reflect the overall performance of the Company; and
- Clawback and malus provisions are in place.

Shareholding requirements

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

Executive Directors are required to hold shares in the Company:

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



Remuneration Report

Annual Statement on Remuneration Continued

All-employee share plans

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

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

How the Policy Addresses the Factors Set Out in the UK Corporate Governance Code 2018:

Our remuneration principles and the key elements of the Directors' Remuneration Policy align with the UK Corporate Governance Code 2018 requirements, as follows:

Clarity and simplicity

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

Risk

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

Predictability and proportionality

There is a clear link between the operation of our short and long-term incentive plan awards and the delivery of our strategy and long-term performance. Variable remuneration at the Company accounts for between 80%-90% of an Executive Director's total remuneration, ensuring that poor performance is not rewarded. Further detail on short and long-term incentive plan awards are detailed on pages 126 and 127.

Alignment to culture

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

Summary of All-Employee Rewards at BAT: Principles of Remuneration for Our Wider Workforce

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

The Remuneration Committee is regularly updated on the pay principles and practices in operation across the Group, and considers them in relation to the implementation of the Directors' Remuneration Policy, and in ensuring there is an appropriate degree of alignment throughout the Group. The Board's approach to engagement with the Group's workforce worldwide is set out on pages 62, 63, 82 and 98. Engagement methods available to the Group's workforce include mechanisms for feedback and dialogue on the Group's pay policies and practices. The Remuneration Committee receives updates from management on feedback received during the year where relevant to remuneration matters considered by the Remuneration Committee, and the Remuneration Committee takes feedback into account as applicable in determining executive remuneration.

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

Competitive yet sustainable

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

Transparent

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

Equitably differentiated

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

Aligned to shareholder interests

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



Fixed remuneration

Salary

- Salary is a key element of total remuneration for all employees.
- Salary ranges for each grade are set by reference to external market data, and individual positioning within the set salary ranges will depend on level of experience, responsibility and individual performance.
- Annual salary reviews typically take place in April each year.

In several markets Collective Labour Agreements (CLAs) exist covering some employees, therefore, some of the above principles may not apply.

Benefits and recognition

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

Pension

- Retirement benefits are provided to employees based on local market practice.
- Under the UK Defined Contribution arrangements, the Company contributions for all UK employees is 10% of base salary rising to a maximum of 15% on a matching basis. For managers in senior management roles, the total contribution to the British American Tobacco UK Pension Plan ("Plan") is automatically restricted to £4,000 per annum in line with the UK government's Tapered Annual Allowance (where the £4,000 per annum restriction was effective from April 2020 having reduced from £10,000 per annum). The balance of any Company contributions due above this £4,000 limit is paid as a cash allowance or, alternatively, paid into the Defined Contribution Unapproved Unfunded Retirement Benefits Scheme. Employees can choose to opt out of the restriction and have all the Company contribution paid into the Plan.

Variable remuneration

Short-term incentives

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

International Executive Incentive Scheme (IEIS) – globally aligned scheme for all managers in senior management roles (c. 1,700 employees), including Executive Directors.

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

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

- Designed to mirror the basic construct of the IEIS with opportunity levels set locally.
- Performance metrics aligned to those of the IEIS.

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

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

Long-term incentives

Long-term incentive schemes are designed to reward and retain our senior talent while aligning the interests of leaders with those of our shareholders. From 2020, we have moved from a single LTI plan to a segmented approach by grade as set out below.

Restricted Share Plan (RSP) – globally aligned plan for managers at eligible grades in senior management roles (c. 575), excluding Executive Directors. Aligns scheme participants with the success of the Group through its share price.

- Opportunity levels are defined globally for each eligible grade.
- No performance conditions apply to awards.
- Awards are typically granted in March of each year, and vest in full following the end of the three-year vesting period provided the participant remains an employee of the Group on the vesting date.
- Dividend-equivalent payments are paid on shares vesting.

Performance Share Plan (PSP) – discretionary plan for our most senior managers (c. 170), including Executive Directors, which rewards their contribution to the long-term global performance of the Company.

- Opportunity levels are defined globally for each eligible grade.
- Awards vest only to the extent that the performance conditions are satisfied at the end of the three-year performance period.
- Awards are typically granted in March of each year, and vest following the end of a three-year performance period.
- Dividend-equivalent payments are paid on any shares vesting.

All-employee share schemes

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



Remuneration Report

Annual Statement on Remuneration

Continued

2 Overview of What Our Executive Directors Earned in 2020 and Why

What our Executive Directors earned in 2020

Single figure for Executive Directors	Jack Bowles		Tadeu Marroco ¹	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Fixed Pay				
Salary	1,259	1,175	775	301
Taxable benefits	592	277	152	80
Pension	189	216	116	46
Total Fixed Pay	2,040	1,668	1,043	427
Variable Pay				
Short-term incentives	2,238	2,824	1,046	560
Long-term incentives ^{2,3}	786	642	508	512
Other emoluments ⁴	3	4	18	–
Total Variable Pay	3,027	3,470	1,572	1,072
Total Remuneration	5,067	5,138	2,615	1,499

Notes:

- Tadeu Marroco was appointed Finance Director on 5 August 2019 and was appointed as an Executive Director on the same date. The amounts shown in the table above for 2019 reflect remuneration received while an Executive Director of the Company.
- The 2018 LTIP award is due to vest on 26 March 2021 for Jack Bowles and Tadeu Marroco based on completion of the three-year performance period on 31 December 2020. The value shown is based on the average share price for the three-month period ended 31 December 2020 of 2,701p. Given the share price performance since the date of grant of awards, none of the value shown in the table above is attributable to share price appreciation.
- Long-term incentives shown for 2019: in accordance with the UK Directors' Remuneration Report Regulations, estimates for the values of the vesting 2017 LTIP awards were given in the Annual Report on Remuneration for the year ended 31 December 2019; these amounts have been re-presented to show the actual market value on the date of vesting in 2020.
- In the Annual Report on Remuneration for the year ended 31 December 2019, life insurance was included within the 'Other emoluments' remuneration item in the single figure table. For the Annual Report on Remuneration for the year ended 31 December 2020, life insurance has been included within the 'Taxable benefits' remuneration item. The figures for 2019 in the table above have been restated to reflect this change.

Further information in respect of this remuneration can be found in Section 3 on page 125.

How this aligns to performance

Short-term incentives for the performance period ended in 2020

Performance summary:

Chief Executive: corporate performance – 177.8% of salary

Finance and Transformation Director: corporate performance – 135.1% of salary

Group share of Key Markets +33 bps growth over 2019	Adjusted profit from operations (APFO) at constant rates of exchange +4.8% growth
Adjusted revenue growth from the Strategic Portfolio at constant rates of exchange +7.0% growth	Deleveraging (excluding foreign exchange) 0.33x at constant rates of exchange

Long-term incentives for the three-year performance period ended in 2020

Vesting at 52.6%

Total shareholder return (TSR) 20 out of 23 in FMCG comparator group 2018–2020	0% achievement (0% of award vesting out of possible 20%)
Adjusted diluted earnings per share (EPS) growth 5.5% CAGR at current rates of exchange	25% achievement (4.9% of award vesting out of possible 20%)
Adjusted diluted earnings per share (EPS) growth 8.5% CAGR at constant rates of exchange	75% achievement (15.0% of award vesting out of possible 20%)
Adjusted revenue growth 4.1% CAGR at constant rates of exchange	64% achievement (12.7% of award vesting out of possible 20%)
Adjusted operating cash flow conversion ratio 104.2% ratio over the performance period	100% achievement (20% of award vesting out of possible 20%)

Non-GAAP measures

Adjusted profit from operations (APFO), deleveraging (excluding foreign exchange), adjusted revenue growth from Strategic Portfolio at constant rates of exchange, adjusted diluted EPS, adjusted revenue and adjusted operating cash flow conversion ratio are non-GAAP measures used by the Remuneration Committee to assess performance. Please refer to pages 276 to 285 for definitions of these measures.



3 Executive Directors' Remuneration for the Year Ended 31 December 2020

Total remuneration for the year ended 31 December 2020

	Jack Bowles		Tadeu Marroco ¹	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Salary	1,259	1,175	775	301
Taxable benefits²				
– car allowance	20	20	20	8
– health insurance	15	13	13	5
– life insurance ³	19	15	8	1
– tax advice	65	30	30	34
– use of Company driver	85	61	55	30
– home and personal security ⁴	155	6	14	–
– tax & social security ⁵	220	122	–	–
– other expenses related to individual and/or accompanied attendance at Company functions/events	13	10	12	2
Total taxable benefits	592	277	152	80
Short-term incentives				
STI vesting percentage (% of maximum)	71.1%	96%	71.1%	96%
STI: cash – Group performance cash element	1,119	1,412	523	280
STI: DSBS – Group performance deferred element	1,119	1,412	523	280
Total short-term incentives (page 126)	2,238	2,824	1,046	560
Long-term incentives^{6,7}				
LTIP vesting percentage (% of maximum)	54.2%	69.9%	54.2%	69.9%
LTIP value to vest	641	540	414	431
Dividend equivalent ⁸	145	102	94	81
Total long-term incentives (page 127)	786	642	508	512
Total pension-related benefits (page 128)	189	216	116	46
Other emoluments³				
Share Reward Scheme (value of ordinary shares awarded)	3	4	3	–
Sharesave Scheme (face value of discount on options granted)	–	–	15	–
Total other emoluments	3	4	18	–
Total remuneration	5,067	5,138	2,615	1,499

Notes:

- Tadeu Marroco was appointed Finance Director on 5 August 2019 and was appointed as an Executive Director on the same date. The amounts shown in the table above for 2019 reflect remuneration received while an Executive Director of the Company.
- Taxable benefits: the figures shown are gross amounts as, in line with the UK market, it is the normal practice for the Company to pay the tax which may be due on any benefits, with the exception of the car or car allowance. The numbers presented above for tax advice are inclusive of applicable VAT and income tax.
- In the Annual Report on Remuneration 2019, life insurance was included within the 'Other emoluments' remuneration item in the single figure table. For the Annual Report on Remuneration 2020, life insurance has been included within the 'Taxable benefits' remuneration item. The figures for 2019 in the table above have been restated to reflect this change.
- Figure for home and personal security for Jack Bowles for 2020 relates to necessary security improvements to his residence. As noted in point 2 above, this amount has been grossed up for UK tax purposes.
- Amount for Jack Bowles relates to tax equalisation payments made during the year ended 31 December 2020.
- The 2018 LTIP award is due to vest on 26 March 2021 based on completion of the three-year performance period on 31 December 2020. The value shown is based on the average share price for the three-month period ended 31 December 2020 of 2,701p. The LTIP vesting figures above reflect awards made to Jack Bowles and Tadeu Marroco prior to being appointed as Executive Directors.
- LTIP award shown for 2019: the values disclosed in the Annual Report on Remuneration for the year ended 31 December 2019 were estimated values as the award had not vested by the date of that report; these amounts have been re-presented based on the actual market value on the date of vesting of 27 March 2020 of 2,734p.
- LTIP dividend equivalent payments: the dividend equivalent payment that will attach to the LTIP award that is included in the Single Figure Table is reported. The values for the year ended 31 December 2019 have been restated on this basis.

Remuneration Report

Annual Statement on Remuneration
Continued

Short-Term Incentives for the Year Ended 31 December 2020

STI performance measures, weightings and results for year ended 31 December 2020

STI: performance measure and target 2020	Description of measure 2020	Actual performance 2020	Payout (maximum)
Group's share of Key Markets (growth over prior year) Weighting: 10% Threshold: 0 bps growth over 2019 Maximum: 10 bps growth over 2019	The Group's volume share in its Key Markets accounts for around 80% of the volume of the Group's subsidiaries. The Group's share is calculated from data as independently measured by retail audit agencies and scanner sales to consumers, or from estimated shipment share. The Group's volume share is re-based as and when the Group's Key Markets change or when retail audit agency product improvements result in the re-statement of data. When re-basing does occur, the Company will also restate historical data and provide fresh comparative data on the markets.	Global volume share in key markets grew by 33 bps. Strategic Report: Delivering our strategy – A Better Tomorrow for Consumers	10% (10%)
Adjusted revenue growth from the Strategic Portfolio (growth over prior year) Weighting: 30% Threshold: 3% growth over 2019 Maximum: 6% growth over 2019	The Strategic Portfolio reflects the focus of the Group's investment activity, and is defined as Strategic Combustibles and Strategic Traditional Oral products, and New Category products. This measure is assessed at constant rates of exchange. Please refer to page 278 for the detailed description of the Strategic Portfolio.	Adjusted revenue from the Strategic Portfolio grew by 7.0%. Strategic Report: Delivering our strategy – A Better Tomorrow for Shareholders	30% (30%)
Adjusted profit from operations (APFO) (growth over prior year) Weighting: 30% Threshold: 4.0% growth over 2019 Maximum: 6.5% growth over 2019	APFO is the adjusted profit from operations at constant rates of exchange for the year ended 31 December 2020. Please refer to page 279 for the detailed description of APFO.	APFO growth over the prior year of 4.8%. Strategic Report: Delivering our strategy – A Better Tomorrow for Shareholders	11.6% (30%)
Deleveraging (excluding foreign exchange) Weighting: 30% Threshold: 0.20x reduction versus 2019 Maximum: 0.40x reduction versus 2019	Deleveraging (excluding foreign exchange) refers to the reduction in Adjusted Net Debt to Adjusted EDITDA during the year ended 31 December 2020, assessed at constant rates of exchange.	Deleveraging (excluding foreign exchange) was 0.33x. Strategic Report: Delivering our strategy – A Better Tomorrow for Shareholders	19.5% (30%)
			71.1% (100%)

STI outcome for year ended 31 December 2020

	Available STI award as % of base salary	STI award achieved as % of maximum opportunity	STI award achieved % of base salary	STI award achieved £'000 (Value shown in Single Figure Table) ¹
Jack Bowles	250%	71.1%	177.8%	2,238
Tadeu Marroco	190%	71.1%	135.1%	1,046

Notes:

1. Malus and clawback provisions apply.

2. 50% of the STI award will be paid in cash and 50% as an award under the DSBS. Awards made under the DSBS are in the form of free ordinary shares in the Company that normally vest after three years and no further performance conditions apply in that period. In certain circumstances, such as resigning before the end of the three-year period, participants may forfeit all of the shares.

Long-Term Incentives (LTIP) for the Year Ended 31 December 2020

LTIP performance measures, weightings and results for the year ended 31 December 2020

LTIP: performance measure	Description of measure and target for 2018 LTIP Performance period 1 January 2018 – 31 December 2020	Result achieved	Vesting percentage
Relative TSR¹		Ranked 20 out of 23	0% (out of maximum of 20%)
Relative to a peer group of international FMCG companies	2018–2020 LTIP target		
	Threshold	At median, 3% vests	
	Maximum	At upper quartile, 20% vests	
Weighting: 20%			
EPS growth at current rates of exchange		5.5% CAGR	4.9% (out of maximum of 20%)
Compound annual growth in adjusted diluted EPS measured at current rates of exchange	2018–2020 LTIP target		
	Threshold	At CAGR of 5%, 3% vests	
	Maximum	At CAGR of 10%, 20% vests	
Weighting: 20%			
EPS growth at constant rates of exchange		8.5% CAGR	15.0% (out of maximum of 20%)
Compound annual growth in adjusted diluted EPS measured at constant rates of exchange	2018–2020 LTIP target		
	Threshold	At CAGR of 5%, 3% vests	
	Maximum	At CAGR of 10%, 20% vests	
Weighting: 20%			
Adjusted revenue²		4.1% CAGR	12.7% (out of maximum of 20%)
Compound annual growth measured at constant rates of exchange	2018–2020 LTIP target		
	Threshold	At CAGR of 3%, 3% vests	
	Maximum	At CAGR of 5%, 20% vests	
Weighting: 20%			
Adjusted Operating cash flow conversion ratio		104.2% ratio	20% (out of maximum of 20%)
Ratio over the performance period at current rates of exchange	2018–2020 LTIP target		
	Threshold	Ratio of 85%, 3% vests	
	Maximum	Ratio of 95%, 20% vests	
Weighting: 20%			
Total vesting level as a percentage of maximum opportunity			52.6%

Notes:

1. **Relative TSR:** the constituents of the FMCG peer group are listed on page 132.

2. **The underpin for adjusted revenue growth measure:** the adjusted revenue growth measure can only vest provided the corresponding three-year CAGR of APFO exceeds the CAGR of the threshold performance level for APFO as approved annually in the STI and approved by the Board. The underpin was exceeded with reference to the APFO STI outcomes for 2018, 2019 and 2020.

LTIP outcome for year ended 31 December 2020

	Number of ordinary shares subject to award	Vesting % achieved (based on 2018–2020 performance period)	Number of ordinary shares to vest	Value of ordinary shares to vest ¹ £'000	Dividend equivalent payment on vesting ² £'000	Total value to vest £'000 (Value shown in Single Figure Table)
Jack Bowles ³	43,785	54.2%	23,731	641	145	786
Tadeu Marroco ³	28,248	54.2%	15,310	414	94	508

The 2018 LTIP awards granted to Jack Bowles and Tadeu Marroco were made prior to their appointments as Executive Directors, therefore the vesting date is 26 March 2021 and the shares will become exercisable on that same date.

Notes:

1. The value of ordinary shares to vest shown above is based on the average share price for the three-month period ended 31 December 2020 of 2,701p.

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

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

Remuneration Report

Annual Statement on Remuneration

Continued

Executive Directors' pension entitlements and accruals for the year ended 31 December 2020

Pension values	Total Defined Contribution (DC) fund value as at year-end 31 December 2020 £'000	
	Defined Contribution (DC) Unapproved Unfunded Retirement Benefit Scheme (UURBS) ¹	British American Tobacco UK Pension Plan
Jack Bowles	884	351
Tadeu Marroco	636	181
Total	1,520	532

Note:

1. The DC UURBS credit accrued over the year is increased in line with the Company's Weighted Average Cost of Debt (WACD) over the year. For the year ended 31 December 2020, a WACD of 3.6% has been used.

Jack Bowles

The total Company contribution to the DC arrangements over the period 1 January to 31 December 2020 was £189,034. Of this, £4,171 was paid to the British American Tobacco UK Pension Plan and £184,863 was credited to the DC UURBS. These total amounts are based on a Company contribution rate of 15% of salary per annum.

Tadeu Marroco

The total Company contribution paid to the DC arrangements over the period 1 January to 31 December 2020 was £116,374. Of this, £4,171 was paid to the funded British American Tobacco UK Pension Plan and £112,203 was credited to the DC UURBS. These total amounts are based on a Company contribution rate of 15% of salary per annum.

Notes:

1. No excess retirement benefits have been paid to or are receivable by an Executive Director or former Executive Director.



Other Information Relating to Chief Executives' Remuneration for the year Ended 31 December 2020

Chief Executives' pay – comparative figures 2011 to 2020

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Chief Executives' 'single figure' of total remuneration (£'000)										
Paul Adams ¹ (to 28 February 2011)	5,961	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nicandro Durante ² (to 1 April 2019)	5,589	6,340	6,674	3,617	4,543	8,313	10,244	8,651	3,054	n/a
Jack Bowles (from 1 April 2019)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3,512	5,067
Annual bonus (STI) paid against maximum opportunity (%)										
Paul Adams ¹ (to 28 February 2011)	100	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nicandro Durante ² (to 1 April 2019)	100	85.0	81.3	73.2	100	100	97.2	100	50	n/a
Jack Bowles (from 1 April 2019)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	96	71.1
Long-term incentive (LTIP) paid against maximum opportunity (%)										
Paul Adams ¹ (to 28 February 2011)	100	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nicandro Durante ² (to 1 April 2019)	100	87.1	49.2	0.0	8.7	46.0	96.1	70.5	69.3	n/a
Jack Bowles (from 1 April 2019)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	69.9	54.2

Notes:

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

Total shareholder return (TSR) performance:¹ 1 January 2011 to 31 December 2020



Note:

- Performance and pay chart:** this shows the performance of a hypothetical investment of £100 in ordinary shares (as measured by the TSR for the Company) against a broad equity market index (the FTSE 100 Index) over a period of 10 financial years starting from 1 January 2011 through to 31 December 2020 based on 30-trading-day average values. A local currency basis is used for the purposes of the TSR calculation making it consistent with the approach to TSR measurement for the LTIP.

Remuneration Report

Annual Statement on Remuneration

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Annual change in remuneration of Directors' and employees

The following table shows the percentage change in the Directors' remuneration measured against a comparator group comprising the UK employee population across all UK entities (2020: 2,764 individuals; 2019: 2,980 individuals). This comparator group is considered to be the most appropriate group due to the limited number of employees employed under BAT plc contracts outside of the Director group. In addition, using a more widely-drawn group encompassing the worldwide nature of the Group's business would also present practical difficulties in collation and a less relevant comparator, given the significant variations in employee pay across the Group, the differing economic conditions and wide variations in gross domestic product per capita.

	Year-on-year percentage change in pay												
	Executive Directors			Non-Executive Directors									
	Average UK-based Employee	Chief Executive ²	Finance and Transformation Director ³	Sue Farr	Dr Marion Helmes	Jerry Fowden ⁴	Luc Jobin	Holly Koepfel	Savio Kwan	Dimitri Panayotopoulos ⁵	Kieran Poynter ⁶	Karen Guerra ⁷	Darrell Thomas ⁸
Salary/ Fees	3%	4%	(9%)	2%	2%	198%	2%	3%	2%	21%	(66%)	n/a	n/a
Taxable Benefits ⁹	1%	66%	(19%)	(100%)	(77%)	240%	(79%)	(82%)	(84%)	(88%)	(100%)	n/a	n/a
Short-term Incentive	(5%)	(11%)	(33%)	–	–	–	–	–	–	–	–	–	–

Notes:

- The data for the UK-based employees comparator group are made up as follows as at 1 November 2020: (1) the weighted average base salaries; (2) the average taxable benefits per grade; and (3) the weighted average bonus result based on that population as at that date.
- The Chief Executive figures for salary, taxable benefits and short-term incentives for 2019 are calculated based on Nicandro Durante's remuneration for the period 1 January to 31 March 2019 and Jack Bowles' remuneration for the period 1 April to 31 December 2019. The increase in taxable benefits relates to security and tax equalisation payments made in the year ended 31 December 2020.
- The Finance and Transformation Director figures for salary, taxable benefits and short-term incentives for 2019 are calculated based on Ben Stevens' remuneration for the period 1 January to 4 August 2019 and Tadeu Marroco's remuneration for the period 5 August to 31 December 2019.
- Increase in fees for Jerry Fowden is due to the 2019 fee figure representing the period 1 September 2019 to 31 December 2019 only.
- From May 2020 Dimitri Panayotopoulos started receiving the Senior Independent Director fee resulting in the fee increase displayed in the table above.
- The decrease in fees and taxable benefits for Kieran Poynter is a result of the figures for 2020 representing the period 1 January 2020 to 30 April 2020 only.
- Karen Guerra was appointed as a Non-Executive Director effective 1 September 2020, therefore no percentage change in fees and taxable benefits is displayed.
- Darrell Thomas was appointed as a Non-Executive Director effective 7 December 2020, therefore no percentage change in fees and taxable benefits is displayed.
- Decrease in taxable benefits for Finance and Transformation Director is related to reduction in use of Company driver in 2020. Decreases in taxable benefits for Non-Executive Directors is reflective of the significant reduction in travel and attendance of business functions due to COVID-related restrictions.

Chief Executive Pay Ratio Disclosure

The below table reflects the Chief Executive pay ratio when compared to employees at the 25th, median and 75th percentile of the Group's UK workforce for years 2019 and 2020. The table also includes the salary and total remuneration figures for the employees at each percentile for 2020.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019 ^{2,3}	Option A	144:1	86:1	36:1
2020 ^{4,5}	Option A	103:1	66:1	29:1

Employees remuneration for 2020	25th percentile	Median	75th percentile
Salary	£33,905	£53,087	£91,773
Total Remuneration	£49,345	£76,702	£176,272

Notes:

- Option A uses the total full-time equivalent remuneration for all UK employees for the financial year ended 31 December 2020 and has been used to calculate the ratio as this is viewed to be the most robust and comprehensive means of assessment and is also reflective of shareholder preferences.
- Total pay and benefits for 2019 are based on the workforce as at 1 December 2019 and include the annualised income for the earnings period 1 January 2019 to 31 December 2019.
- Total pay and benefits for the Chief Executive for 2019 are based on the single figure calculation on page 97 of the 2019 Annual Report. The Chief Executive single figure used in the calculation is a combination of remuneration data for both Nicandro Durante and Jack Bowles, recognising the transition in the Group's leadership which took place in 2019.
- Total pay and benefits are based on the workforce as at 1 November 2020 and include the annualised income for the earnings period 1 January 2020 to 31 December 2020.
- Total pay and benefits for the Chief Executive are based on the single figure calculation on page 124.
- Total pay and benefits for the workforce is calculated as far as possible on the same basis as the Chief Executive single figure calculation. This includes salary, taxable benefits, short-term incentive, long-term incentive, dividends, pension benefits and any other remuneration receivable. For the purposes of this analysis, the following has been assumed:
 - For all employees that are eligible for a car benefit, the applicable car allowance amounts have been used;
 - For all employees that participate in the global International Executive Incentive Scheme or equivalent corporate incentive scheme, incentive pay-outs are calculated based on the same metrics; and
 - For all employees that participate in the UK DC scheme, Company contributions of 15% of salary have been used.
- For the calculation of the total pay and benefits for employees, employees on international assignment into and out of the UK have been included; however, assignment benefits, such as housing support, education support, home leave allowance or relocation costs, have not been included as these are not consistent with the benefits included in the Chief Executive single figure calculation.
- For hourly paid employees who are not full time, total pay and benefits have been pro-rated based on full-time employee hours.
- For employees who have joined part way through the year, pro rata income has been used to provide a full year figure.

The figures above show that there has been a significant reduction in the Chief Executive pay ratio across all quartiles from 2019 to 2020.



The reduction is primarily a consequence of three elements of the Chief Executive remuneration package reducing from 2019 to 2020 and these are pension, short-term incentive and long-term incentive. It should also be noted that the 2019 pay ratio was calculated based on a blended figure combining the remuneration of Nicandro Durante and Jack Bowles for their respective periods in the role.

Pension – the 2019 Chief Executive pension figure included the cost of Nicandro Durante's defined benefit pension plan. Jack Bowles' pension contribution is 15% of annual salary in line with the wider UK workforce.

Short-term incentive – the outcome for the 2019 short-term incentive plan was 96.1% which has reduced to 71.1% for 2020.

Long-term incentive – the outcome for the 2016 LTIP award, for which the performance period ended 31 December 2019, was 69.9% which has reduced to 54.2% for the 2018 LTIP award which completed the three year performance period on 31 December 2020. Furthermore, the figure for 2019 included income from awards made to Nicandro Durante at Chief Executive award levels. The figure for 2020 includes only income from awards made to Jack Bowles prior to his appointment to Executive Director.

The Company believes the median pay ratio for 2020 reflects the diversity of our business footprint and employee population across the UK. The Group's remuneration policies and practices are founded on a high degree of alignment and consistency, with total remuneration at all levels providing competitive compensation that enables the attraction and retention of talent while also providing equitable differentiated remuneration based on grade, performance and experience. Further details on all-employee rewards at BAT can be found on pages 122 and 123.

4 Executive Directors' Remuneration for the Upcoming Year

Base salary for 2021

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

Executive Directors – salaries	Base salary from 1 Apr 2021 £	Percentage change %	Base salary from 1 Apr 2020 £
Jack Bowles	1,325,610	3%	1,287,000
Tadeu Marroco ¹	803,400	4%	772,500

Notes:

1. The 4% base salary increase for Tadeu Marroco was effective from 1 October 2020 (see page 119 for further details).

Benefits and pension

No changes have been made to the provision of benefits or pension for 2021.

Short-term incentives for 2021

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

2021 STI metrics & weightings	
Group share of key markets ¹	15%
New Categories revenue ²	20%
Adjusted profit from operations	30%
Deleveraging excluding foreign exchange	35%
Total	100%

Notes:

1. Group share of key markets will include THP performance for all major markets (markets included are Japan, South Korea, Italy, Czech Republic, Ukraine and Russia). A description of the metric can be found on page 274.

2. Further details of the metric can be found on page 277.

Further detail is included in the description of the STI measures for the year ended 31 December 2020 on page 126.



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Long-term incentives for 2021

The Chief Executive and Finance and Transformation Director will be granted an LTIP award equal to a maximum of 500% of salary and 400% of salary, respectively. The performance measures and weightings for the LTIP award to be granted in 2021 will remain unchanged from those for 2020 awards. The measures and targets for 2021 LTIP awards are set out below.

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

5 Chairman and Non-Executive Directors' Remuneration for the Year Ended 31 December 2020

The following table shows a single figure of remuneration for the Chairman and Non-Executive Directors in respect of qualifying services for the year ended 31 December 2020 together with comparative figures for 2019.

	Base fee ¹ £'000		Chair/Committee membership fees ¹ £'000		Taxable benefits ² £'000		Total remuneration £'000	
	2020	2019	2020	2019	2020	2019	2020	2019
Chairman								
Richard Burrows	714	695	–	–	77	137	791	832
Non-Executive Directors								
Sue Farr	96	94	26	26	–	4	122	124
Dr Marion Helmes	96	94	26	26	3	13	125	133
Jerry Fowden	96	32	26	9	17	5	139	45
Luc Jobin ³	96	94	26	26	16	77	138	197
Holly Keller Koepfel ⁴	96	94	53	51	23	125	172	270
Savio Kwan	96	94	26	26	10	61	132	181
Karen Guerra (from 14 September 2020)	29	–	8	–	–	–	37	–
Darrell Thomas (from 7 December 2020)	–	–	–	–	–	–	–	–
Dimitri Panayotopoulos	124	94	53	52	3	24	180	170
Kieran Poynter (up to 30 April 2020)	44	94	9	64	–	1	53	159
Total	1,487	1,384	253	280	149	447	1,889	2,111

Notes:

- Committee memberships:** are shown, together with changes during the year, in the reports of the respective committees in the Governance sections of the Directors' Report.
- Benefits:** the Chairman's benefits in 2020 comprised: health insurance and 'walk-in' medical services £16,000 (2019: £15,000); the use of a Company driver £48,000 (2019: £81,000); home and personal security in the UK and Ireland £11,000 (2019: £14,000); and commuting flights to London £2,000 (2019: £23,000). The benefits for the other Non-Executive Directors principally comprised travel-related expenses incurred in connection with individual and/or accompanied attendance at certain business functions and/or events and 'walk-in' medical services. The figures shown are grossed-up amounts (as appropriate) as, in line with the UK market, it is the normal practice for the Company to pay the tax that may be due on any benefits.
- Pension:** Luc Jobin receives a pension in respect of prior service to Imasco Limited (acquired in 2000 by the Group) and Imperial Tobacco Canada Limited, a subsidiary of BAT. In 2020 this amount was CAD\$151,395.00 (£86,112.85) (2019: CAD\$150,228.96 (£87,450.72)).
- Deferred Compensation Plan for Directors of Reynolds American Inc. (DCP): as a former outside director of Reynolds American Inc. Holly Keller Koepfel participated in the DCP under which she elected to defer payment of a portion of her Reynolds American retainers and meeting attendance fees to a Reynolds American stock account. Following the acquisition of Reynolds American by BAT, amounts deferred to a stock account (Deferred Stock Units or DSUs) mirror the performance of, and receive dividend equivalents based on, BAT American Depository Shares (ADSs). The DSUs of Holly Keller Koepfel are disclosed as a note to 'Summary of Directors' share interests' below. DSUs deferred under the DCP will be paid in accordance with the terms of the DCP, section 409A of the US Internal Revenue Code of 1986, as amended, and the Director's existing deferral elections.
- The Non-Executive Directors' fees structure 2020 is set out in the table overleaf.

	Fees from 1 May 2020 £	Fees to 30 April 2020 £
Base fee	96,850	94,500
Senior Independent Director – supplement	41,500	37,800
Audit Committee: Chairman	40,950	39,950
Audit Committee: Member	14,100	13,750
Nominations Committee: Chairman	–	–
Nominations Committee: Member	12,500	12,200
Remuneration Committee: Chairman	40,950	39,950
Remuneration Committee: Member	14,100	13,750

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

As described in the Annual Report on Remuneration for the year ended 31 December 2019, the Chairman's fee was increased from £698,000 to £718,940 from 1 April 2020.

With effect from 28 April 2021, Luc Jobin's fee as Chairman will be £670,000.

The fees for Non-Executive Directors are scheduled to be reviewed in April 2021 with any changes being effective from 1 May 2021.

6 Directors' Share Interests

Summary of Directors' share interests

	Outstanding scheme interests 31 Dec 2020					
	Ordinary shares held at 31 Dec 2020	Unvested awards subject to performance measures and continued employment (LTIP)	Unvested awards subject to continued employment only (DSBS)	Unvested interests (Sharesave)	Total ordinary shares subject to outstanding scheme interests	Total of all interests in ordinary shares at 31 Dec 2020
Executive Directors						
Jack Bowles ^{1,3}	217,518	443,446	91,874	–	535,320	752,838
Tadeu Marroco ^{2,3}	54,360	178,243	45,404	890	224,537	278,897
Chairman						
Richard Burrows	19,000					19,000
Non-Executive Directors						
Sue Farr	–					–
Jerry Fowden ⁴	10,000					10,000
Dr Marion Helmes	4,500					4,500
Luc Jobin ⁴	45,236					45,236
Holly Keller Koeppel ^{4,5}	8,416					8,416
Savio Kwan ³	7,455					7,455
Dimitri Panayotopoulos	3,300					3,300
Darrell Thomas ⁴	2,000					2,000
Karen Guerra	2,478					2,478

Notes:

- Jack Bowles:** ordinary shares held include 685 held by the trustees of the BAT Share Incentive Plan (SIP).
- Tadeu Marroco:** ordinary shares held include 1,114 held by the trustees of the SIP.
- Changes from 31 December 2020:** (a) Jack Bowles: acquisition of 13 ordinary shares on 5 February 2021 as a result of reinvestment of dividend income under the SIP; acquisition of 69 ordinary shares on 5 February 2021 as a result of reinvestment of dividend income under the Share Plan Account (SPA); and acquisition of 437 ordinary shares on 5 February 2021 as a result of reinvestment of dividend income under the Deferred Shares Bonus Scheme (DSBS). (b) Tadeu Marroco: purchases of five ordinary shares on 8 January 2021 and five ordinary shares on 5 February 2021 under the SIP; acquisition of 21 ordinary shares on 5 February 2021 as a result of reinvestment of dividend income under the SIP; acquisition of 21 ordinary shares on 5 February 2021 as a result of reinvestment of dividend income under the SPA; and acquisition of 134 ordinary shares on 5 February 2021 as a result of reinvestment of dividend income under the DSBS. There were no changes in the interests of the Chairman and the other Non-Executive Directors.
- American Depositary Shares (ADSs):** each of the interests in ordinary shares held by Jerry Fowden, Luc Jobin, Holly Keller Koeppel and Darrell Thomas consists of an equivalent number of BAT ADSs each of which represents one ordinary share in the Company.
- Deferred Stock Units (DSUs):** at the date of this report Holly Keller Koeppel, being a former director of Reynolds American Inc. and a participant in the Deferred Compensation Plan for Directors of Reynolds American (DCP), holds DSUs which were granted prior to becoming a Director of BAT. Each DSU entitles the holder to receive a cash payment upon ceasing to be a Director equal to the value of one BAT ADS. The number of DSUs increases on each dividend date by reference to the value of dividends declared on the ADSs underlying the DSUs. Ms Koeppel currently holds 25,125.91 DSUs (31 December 2020: 24,653.11 DSUs).

Remuneration Report

Annual Statement on Remuneration

Continued

Executive Directors' shareholding guidelines

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

	No. of eligible ordinary shares held at 31 Dec 2020	Value of eligible ordinary shares held at 31 Dec 2020 ¹ £m	Actual percentage (%) of base salary at 31 Dec 2020	Shareholding requirements (% of base salary 31 Dec 2020)	Compliant with shareholding requirement
Jack Bowles	265,539	7.2	558.7	500%	Yes
Tadeu Marroco	77,341	2.1	260.7	400% ²	See note 2

In accordance with the UK Corporate Governance Code 2018, the Remuneration Committee introduced from 2019 a new post-employment shareholding requirement whereby Executive Directors are required to hold shares equivalent to 100% of current shareholding requirements for two full years following the date of their departure with a sale restriction mechanism in place for this period. The Directors' Remuneration Policy came into effect on 26 April 2019, following approval by shareholders at our AGM.

Ben Stevens is compliant with the post-employment shareholding requirement for the year ended 31 December 2020.

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

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

Notes:

- Value of ordinary shares shown above:** this is based on the closing mid-market share price on 31 December 2020 of 2,708p.
- Tadeu Marroco was appointed as an Executive Director on 5 August 2019, prior to which the shareholding requirement for Mr Marroco was set at a lower percentage of salary with Mr Marroco being compliant with required percentage. Under the Directors' Remuneration Policy, Executive Directors may generally sell a maximum of up to 50% of any shares vesting (after tax) under the Company's share plans until the threshold for shareholding requirements has been met and Mr Marroco is compliant with this policy requirement. In line with the Directors' Remuneration Policy, the shareholding requirement is equal to the value of the same multiple of salary at which LTIP awards are made to that Director, as such the shareholding requirement for Mr Marroco increased to 400% in 2020.
- Meeting the guidelines:** if an Executive Director does not at any time, meet the requirements of the shareholding guidelines, the individual may, generally, only sell a maximum of up to 50% of any ordinary shares vesting (after tax) under the Company share plans until the threshold required under the shareholding guidelines has been met.
- Waiver of compliance with guidelines:** this is permitted with the approval of the Remuneration Committee in circumstances where a restriction on a requested share sale could cause undue hardship. No such applications were received from the Executive Directors during 2020.



Executive Directors' outstanding scheme interests

	Plan	At 1 Jan 2020	Awarded in 2020	Lapsed in 2020	Exercised/ released in 2020	At 31 Dec 2020	Exercise price (p)	End of performance period	Date from which exercisable or shares released
Jack Bowles	LTIP ¹	26,463	–	7,966	18,497	–	2,689.50	31 Dec 19	27 Mar 20
	LTIP ²	43,785	–	–	–	43,785	–	31 Dec 20	26 Mar 21
	LTIP ³	176,532	–	–	–	176,532	–	31 Dec 21	28 Mar 24
	LTIP ³	–	223,129	–	–	223,129	–	31 Dec 22	30 Mar 25
	DSBS	8,997	–	–	8,997	–	–	31 Dec 19	27 Mar 20
	DSBS	12,064	–	–	–	12,064	–	31 Dec 20	26 Mar 21
	DSBS	26,192	–	–	–	26,192	–	31 Dec 21	28 Mar 22
	DSBS	–	53,618	–	–	53,618	–	31 Dec 22	30 Mar 23
	Sharesave	–	–	–	–	–	–	–	–
	Sharesave	–	–	–	–	–	–	–	–
Tadeu Marroco	LTIP ¹	21,109	–	6,354	14,755	–	3,003.00	31 Dec 19	27 Mar 20
	LTIP ²	28,248	–	–	–	28,248	–	31 Dec 20	26 Mar 21
	LTIP ³	36,057	–	–	–	36,057	–	31 Dec 21	28 Mar 22
	LTIP ³	–	113,938	–	–	113,938	–	31 Dec 22	30 Mar 25
	DSBS	7,177	–	–	7,177	–	–	31 Dec 19	27 Mar 20
	DSBS	7,783	–	–	–	7,783	–	31 Dec 20	26 Mar 21
	DSBS	13,233	–	–	–	13,233	–	31 Dec 21	28 Mar 22
	DSBS	–	24,388	–	–	24,388	–	31 Dec 22	30 Mar 23
	Sharesave	495	–	–	495	–	3,026.00	1 May 20	1 May 20
	Sharesave	266	–	–	–	266	–	1 May 21	1 May 21
Sharesave	–	624	–	–	624	–	1 May 25	1 May 25	

Notes:

- Details of the performance condition for the LTIP awards granted in 2017 (which vested during 2020), and of achievement against that condition in the period to 31 December 2019, were set out in the Annual Report on Remuneration for the year ended 31 December 2019.
- Details of the performance condition attached to 2018 LTIP awards, and of achievement against that condition in the period to 31 December 2020, are set out on page 127.
- Details of the performance condition attached to 2019 and 2020 LTIP awards are set out on page 136.

Further details in relation to scheme interests granted during the year ended 31 December 2020

	Plan	Ordinary shares awarded	Price per ordinary share at award ¹	Face value of award £'000	Proportion of award vesting for threshold performance (%)	Performance period	Date from which exercisable or shares released
Jack Bowles	LTIP ²	223,129	2,633p	5,875	15	2020-2022	30 Mar 25
	DSBS	53,618			n/a	n/a	30 Mar 23
Tadeu Marroco	LTIP ²	113,938	2,633p	3,000	15	2020-2022	30 Mar 25
	DSBS	24,388			n/a	n/a	30 Mar 23

Notes:

- The price per ordinary share is the price used to determine the number of ordinary shares subject to the awards, which is calculated as the average of the closing mid-market price of an ordinary share over the three dealing days preceding the date of grant.
- Details of the performance condition attached to these LTIP awards are set out below.

Remuneration Report

Annual Statement on Remuneration
Continued

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

	LTIP awards granted in 2019 1 January 2019–31 December 2021			LTIP awards granted in 2020 1 January 2020–31 December 2022		
	Weighting	Threshold	Maximum	Weighting	Threshold	Maximum
Relative TSR	20%	At median, 3% of award vests	At upper quartile, 20% of award vests	20%	At median, 3% of award vests	At upper quartile, 20% of award vests
Ranking against a peer group of international FMCG companies						
EPS growth at current rates of exchange	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests
Compound annual growth in adjusted diluted EPS measured at current rates of exchange						
EPS growth at constant rates of exchange	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests	20%	At 5% CAGR, 3% of award vests	At 10% CAGR, 20% of award vests
Compound annual growth in adjusted diluted EPS measured at constant rates of exchange						
Adjusted revenue growth	20%	At 3% CAGR, 3% of award vests	At 5% CAGR, 20% of award vests	20%	At 3% CAGR, 3% of award vests	At 5% CAGR, 20% of award vests
Compound annual growth measured at constant rates of exchange						
Adjusted operating cash flow conversion ratio	20%	At 85%, 3% of award vests	At 95%, 20% of award vests	20%	At 85%, 3% of award vests	At 95%, 20% of award vests
Measured at current rates of exchange, as a percentage of APFO						

7 Other Disclosures

There were no payments to past Directors or for loss of office.

Relative importance of spend on pay

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

Item	2020 £m	2019 £m	% change
Remuneration of Group employees ¹	2,744	3,221	-14.8
Remuneration of Executive Directors	8	13	-38.5
Remuneration of Chairman and Non-Executive Directors	2	2	0
Total dividends ²	4,745	4,598	3.2

Notes:

1. **Total remuneration of Group employees:** this represents the total employee remuneration costs for the Group, set out on page 166 within note 3(a) in the Notes on the Accounts.

2. **Total dividends:** this represents the total dividends paid in 2020. For further details please refer to page 71.

Shareholder dilution – options and awards outstanding

Satisfaction of Company share plan awards in accordance with the Investment Association's Principles of Remuneration

- by the issue of new ordinary shares;
- ordinary shares issued from treasury only up to a maximum of 10% of the Company's issued share capital in a rolling 10-year period;
- within this 10% limit, the Company can only issue (as newly issued ordinary shares or from treasury) 5% of its issued share capital to satisfy awards under discretionary or executive plans; and
- the rules of the Company's Deferred Share Bonus Scheme do not allow for the satisfaction of awards by the issue of new ordinary shares.

New ordinary shares issued by the Company during the year ended 31 December 2020

- 70,859 ordinary shares issued by the Company in relation to the Sharesave Scheme;
- a total of 936,103 Sharesave Scheme options over ordinary shares in the Company were outstanding at 31 December 2020, representing 0.04% of the Company's issued share capital (excluding shares held in treasury); and
- options outstanding under the Sharesave Scheme are exercisable until the end of October 2025 at option prices ranging from 2,291p to 4,056p.

8 The Remuneration Committee and Shareholder Engagement

Remuneration Committee current members

Dimitri Panayotopoulos (Chairman)

Sue Farr

Karen Guerra

Dr Marion Helmes

Savio Kwan

Role

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

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

Remuneration Committee terms of reference

The Committee's terms of reference align with the requirements of the UK Corporate Governance Code 2018. No changes were made to the Remuneration Committee's terms of reference in 2020.



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

Attendance at meetings in 2020¹

Name	Member since	Attendance/ Eligible to attend Scheduled	Attendance/ Eligible to attend Ad Hoc
Dimitri Panayotopoulos	2015	4/4	2/2
Sue Farr	2016	4/4	2/2
Karen Guerra ^{2(b)}	2020	2/2	1/1
Marion Helmes	2019	4/4	2/2
Savio Kwan	2016	4/4	2/2

Notes:

1. **Number of meetings in 2020:** the Committee held six meetings in 2020, two of which were ad hoc.

2. **Membership:** (a) all members of the Committee are independent Non-Executive Directors in accordance with the UK Corporate Governance Code 2018 Provisions 10 and 32 and applicable NYSE listing standards; and (b) Karen Guerra became a member of the Committee on 14 September 2020 on her appointment as a Non-Executive Director.

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

4. **PwC LLP:** as one of the Remuneration Committee's remuneration consultants appointed in January 2020, they attended meetings of the Remuneration Committee in 2020. As one of the founding members of the Remuneration Consultants Group (RCG), PwC LLP agrees to the RCG Code of Conduct which seeks to clarify the scope and conduct of the role of executive remuneration consultants when advising UK listed companies.

5. **Meridian:** as one of the Remuneration Committee's remuneration consultants appointed in January 2020, they attended meetings of the Remuneration Committee in 2020.

6. **Deloitte:** provided general advice on remuneration up to 1 February 2020 but did not attend any meetings of the Remuneration Committee in 2020.

Remuneration Report

Annual Statement on Remuneration
Continued

Remuneration Committee advisers during 2020

Independent external advisers	Services provided to the Remuneration Committee	Fees	Other services provided to the Company
Deloitte LLP	General advice on remuneration matters up to 1 February 2020.	2020: £9,500 2019: £76,000	Tax, corporate finance and consulting services to Group companies worldwide.
PwC LLP¹	General advice on remuneration matters including: market trends and comparator group analysis; policy review and shareholder engagement perspectives; and independent measurement of the relative TSR performance conditions.	2020: £126,013	Tax, corporate finance and consulting services to Group companies worldwide excluding the US.
Meridian	General advice on remuneration matters including market trends, shareholder engagement perspectives and comparator group analysis.	2020: \$49,537	Consulting services to Group companies in the US.
Herbert Smith Freehills LLP	Advice in respect of share plan regulations is provided to the Company and is available to the Remuneration Committee.	Fees relate to advice given to the Company.	General corporate legal and tax advice principally in the UK.
KPMG LLP	Specified procedures to assist in the assessment of the calculations of the STI bonus and LTI outcomes and future targets.	2020: £28,000 2019: £28,000	Audit and tax services and other non-audit services.

Note:

1. PwC LLP also provides other international services and international tax advice such as tax return services including for certain globally mobile directors. The Remuneration Committee advisory team is not involved in any other services PwC provides to the Group.

Regular work programme 2020

The Remuneration Committee:

- reviewed the Chairman's fee from 1 April 2020 with specific reference to the level of salary increases awarded to UK employees;
- reviewed salaries for the Executive Directors to take effect from 1 April 2020, taking into account market positioning and the level of salary increases awarded to UK employees. The Remuneration Committee Chairman has led a programme of shareholder engagement in relation to these matters;
- reviewed salaries for members of the Management Board and the Company Secretary from 1 April 2020, taking into account market positioning and the level of salary increases awarded to UK employees;
- assessed the achievement against the targets for the 2019 STI award and set the STI targets for 2020;
- reviewed updates on achievement against the performance measures, including for the six months ended 30 June 2020 for the STI 2020 and for outstanding LTIP awards;
- assessed the achievement against the performance conditions for the vesting of the LTIP 2017 award, determined the contingent level of LTIP awards for March 2020 and reviewed the associated performance conditions;
- reviewed the STI performance measures and targets for 2021;
- assessed the achievement against the targets for the 2019 Share Reward Scheme and set the targets for the 2020 award;
- reviewed the Annual Statement and the Annual Report on Remuneration for the year ended 31 December 2019 prior to its approval by the Board and subsequent proposal to shareholders at the Company's AGM on 30 April 2020;
- analysed the 2020 AGM voting results relating to remuneration resolutions and reviewed market trends in the context of that annual general meeting season and corporate governance developments in the UK and the US;
- monitored the continued application of the Company's shareholding guidelines for the Executive Directors and members of the Management Board; and
- reviewed the Remuneration Committee's effectiveness following the Board and Committee evaluation process, discussed further on page 104.



Other activities in 2020

The Remuneration Committee:

- approved the remuneration package in respect of the appointment of Luc Jobin as Chairman Designate from 1 March 2021 and then as Chairman from the conclusion of the Company's 2021 AGM, with specific consideration of market positioning;
- reviewed the terms of appointment and associated remuneration, and terms of termination of employment, in connection with Management Board changes during the year;
- completed a detailed review of the Group's legacy defined pension arrangements in the UK. Consultation with impacted employees in respect of proposals to close UK defined benefit arrangements to future accrual concluded in March 2020 and the Group's legacy defined pension arrangements in the UK were closed to future accrual with effect from 30 June 2020;
- reviewed elements of the Group's workforce remuneration strategy and their alignment with Executive Directors' remuneration and, more broadly, their alignment with the Group's culture, with specific focus on pay comparator groups for Executive Directors, the Management Board and management grade employees across the Group;
- approved changes to the methodology for calculating the share of market read for the STI volume share metrics in a limited number of markets, based on market changes and reporting capabilities; and
- reviewed the UK gender pay report for 2019 for applicable UK Group companies prior to publication in March 2020.

Voting on Remuneration and Engagement With Shareholders

At the AGM on 30 April 2020, shareholders considered and voted on the 2019 Directors' Remuneration Report as set out on the table below. No other resolutions in respect of Directors' remuneration or incentives were considered at the 2020 AGM. Further information regarding shareholder engagement in relation to remuneration matters is set out in the Annual Statement on Remuneration on page 118 and in the discussion of Board engagement with shareholders on page 97.

Approval of Directors' Remuneration Report¹

	2020 AGM
Percentage for	61.94
Votes for (including discretionary)	1,081,334,586
Percentage against	38.06
Votes against	664,416,231
Total votes cast excluding votes withheld	1,745,750,817
Votes withheld ³	3,859,408
Total votes cast including votes withheld	1,749,610,225

The Directors' Remuneration Policy was approved by shareholders at the 2019 AGM. A summary of this Policy is on pages 120 to 123 of this Remuneration Report 2020.

Approval of Directors' Remuneration Policy²

	2019 AGM
Percentage for	92.63
Votes for (including discretionary)	1,641,331,721
Percentage against	7.37
Votes against	130,661,885
Total votes cast excluding votes withheld	1,771,993,606
Votes withheld ³	1,820,757
Total votes cast including votes withheld	1,773,814,363

Notes:

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

The Directors' Remuneration Report has been approved by the Board on 16 February 2021 and signed on its behalf by:

Dimitri Panayotopoulos

Chairman, Remuneration Committee

16 February 2021



Governance

Responsibility of Directors

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Financial Statements

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
British American Tobacco p.l.c.

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying Group Balance Sheet of British American Tobacco p.l.c. and subsidiaries (the "Group") as of December 31, 2020 and 2019, the related Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity, and Group Cash Flow Statement for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements). We also have audited the Group's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board. Also in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020 based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinions

The Group's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's report on internal control over financial reporting. Our responsibility is to express an opinion on the Group's consolidated financial statements and an opinion on the Group's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.



Impairment analysis of goodwill and trademarks with indefinite lives arising from the 2017 acquisition of Reynolds American Inc. (Reynolds American)

As discussed in Note 8 to the consolidated financial statements, the Group, as at December 31, 2020, has goodwill and trademarks with indefinite lives of £32,719 million and £68,839 million, respectively, arising from the 2017 acquisition of Reynolds American.

We identified the evaluation of the impairment analysis of goodwill and trademarks with indefinite lives arising from the 2017 acquisition of Reynolds American as a critical audit matter. There is a high degree of auditor judgement involved in evaluating : (i) the budgeted revenue used in the analysis of the recoverability of trademarks with indefinite lives and goodwill; and (ii) any impact of the potential menthol ban on budgeted revenue or the discount rate for the Newport indefinite lived trademark and the goodwill allocated to the Reynolds American cash-generating unit.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the goodwill and other intangible assets testing process including controls related to the development of the budgeted revenue and assessment of the impact of the potential menthol ban on the assumptions listed above. In addition, we assessed the impairment analysis by:

- analyzing Reynolds American’s budgeted revenue by examining externally derived publicly and privately available data, including, broker and analyst reports, industry reports, media reports, macro-economic assumptions, academic and scientific studies, and regulatory changes other than a potential federal menthol ban;
- challenging the budgeted revenue by comparing the historical projections to actual results to assess the Group’s ability to accurately forecast;
- performing sensitivity analysis on the budgeted revenue to assess its impact on the Group’s determination that the fair value of the Reynolds American goodwill and trademarks with indefinite lives exceed their carrying value; and
- specifically for the potential menthol ban, critically assessing the Group’s assertion that this does not significantly impact the related cash flow forecast or the discount rate, by examining broker and analyst reports, industry reports, media reports, academic and scientific studies, and regulatory changes proposed in the U.S. Food and Drug Administration agenda and the U.S. government agendas.

Canadian legal proceedings

As discussed in Note 27 to the consolidated financial statements, the Group’s operating company in Canada, Imperial Tobacco Canada (“Imperial”), has received an unfavorable judgment on the smoking and health class actions certified by the Quebec Superior Court. As a result of this judgment, Imperial has filed for creditor protection under the Companies’ Creditors Arrangement Act (the “CCAA”) and has asked the Ontario Superior Court to stay all pending or contemplated litigation against Imperial in order to resolve all of the outstanding litigation across the country.

We identified the evaluation of the Canadian legal proceedings as a critical audit matter because complex and subjective auditor judgment was required in evaluating the Group’s assessment of the relevant law, historical and pending court rulings, and the Group’s ability to estimate the likelihood and extent of any future economic outflow arising from the ultimate resolution of the Canadian litigation.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the legal exposure process including controls related to the interpretation of relevant law and related court rulings and estimation of the likelihood and extent of any future economic outflow arising from the ultimate resolution of the Canadian litigation. In addition, we assessed the Canadian legal proceedings by:

- reading letters received directly from the Group’s external and internal legal counsel that evaluated the current status of the Canadian legal proceedings. We further inquired of internal legal counsel to evaluate their basis for conclusions in their letter; and
- assessing relevant historical and recent judgments passed by the judicial court authorities in relation to the Canadian litigation and read the related Canadian court rulings in order to challenge Imperial’s interpretation of the Canadian legal proceedings.

We have served as the Group’s auditor since 2015.

/s/ KPMG LLP

London, United Kingdom
February 16, 2021



Financial Statements

Group Income Statement

	Notes	For the years ended 31 December		
		2020 £m	2019 £m	2018 £m
Revenue¹	2	25,776	25,877	24,492
Raw materials and consumables used		(4,583)	(4,599)	(4,664)
Changes in inventories of finished goods and work in progress		445	162	114
Employee benefit costs	3(a),(e)	(2,744)	(3,221)	(3,005)
Depreciation, amortisation and impairment costs	3(b),(e),(f),(h)	(1,450)	(1,512)	(1,038)
Other operating income	3(e),(i)	188	163	85
Loss on reclassification from amortised cost to fair value		(3)	(3)	(3)
Other operating expenses	3(c),(d),(e),(g),(h)	(7,667)	(7,851)	(6,668)
Profit from operations	2	9,962	9,016	9,313
Net finance costs	4	(1,745)	(1,602)	(1,381)
Share of post-tax results of associates and joint ventures	2, 5	455	498	419
Profit before taxation		8,672	7,912	8,351
Taxation on ordinary activities	6	(2,108)	(2,063)	(2,141)
Profit for the year		6,564	5,849	6,210
Attributable to:				
Owners of the parent		6,400	5,704	6,032
Non-controlling interests		164	145	178
		6,564	5,849	6,210
Earnings per share				
Basic	7	280.0p	249.7p	264.0p
Diluted	7	278.9p	249.0p	263.2p

Note:

1. Revenue is net of duty, excise and other taxes of £39,172 million, £39,826 million and £38,553 million for the years ended 31 December 2020, 2019 and 2018, respectively.

The accompanying notes are an integral part of these consolidated financial statements.



Group Statement of Comprehensive Income

	Notes	For the years ended 31 December		
		2020 £m	2019 £m	2018 £m
Profit for the year		6,564	5,849	6,210
Other comprehensive (expense)/income				
Items that may be reclassified subsequently to profit or loss:		(2,997)	(3,216)	3,099
Differences on exchange		(2,597)	(2,967)	3,868
Cash flow hedges				
– net fair value losses		(257)	(246)	(58)
– reclassified and reported in profit for the year		90	53	17
Net investment hedges				
– net fair value (losses)/gains		(16)	21	(472)
– differences on exchange on borrowings		(163)	(18)	(236)
Associates – share of OCI, net of tax	5	(98)	(115)	(38)
Tax on items that may be reclassified	6(f)	44	56	18
Items that will not be reclassified subsequently to profit or loss:		55	(507)	115
Retirement benefit schemes				
– net actuarial gains/(losses)	11	105	(582)	138
– surplus recognition	11	10	(7)	4
Associates – share of OCI, net of tax	5	(34)	7	6
Tax on items that will not be reclassified	6(f)	(26)	75	(33)
Total other comprehensive (expense)/income for the year, net of tax		(2,942)	(3,723)	3,214
Total comprehensive income for the year, net of tax		3,622	2,126	9,424
Attributable to:				
Owners of the parent		3,474	2,000	9,239
Non-controlling interests		148	126	185
		3,622	2,126	9,424

The accompanying notes are an integral part of these consolidated financial statements.



Financial Statements

Group Statement of Changes in Equity

	Notes	Attributable to owners of the parent						Total equity £m
		Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non-controlling interests £m	
Balance at 1 January 2020		614	26,609	(3,555)	40,234	63,902	258	64,160
Total comprehensive (expense)/income for the year comprising:		–	–	(3,012)	6,486	3,474	148	3,622
Profit for the year		–	–	–	6,400	6,400	164	6,564
Other comprehensive (expense)/income for the year		–	–	(3,012)	86	(2,926)	(16)	(2,942)
Other changes in equity								
Cash flow hedges reclassified and reported in total assets		–	–	(33)	–	(33)	–	(33)
Employee share options								
– value of employee services	24	–	–	–	88	88	–	88
– proceeds from new shares issued		–	2	–	–	2	–	2
– treasury shares used for share option schemes		–	7	–	(7)	–	–	–
Dividends and other appropriations								
– ordinary shares	18(e)	–	–	–	(4,747)	(4,747)	–	(4,747)
– to non-controlling interests		–	–	–	–	–	(141)	(141)
Purchase of own shares								
– held in employee share ownership trusts		–	–	–	(17)	(17)	–	(17)
Other movements non-controlling interests	23	–	–	–	–	–	17	17
Other movements		–	–	–	4	4	–	4
Balance at 31 December 2020		614	26,618	(6,600)	42,041	62,673	282	62,955

The accompanying notes are an integral part of these consolidated financial statements.

	Notes	Attributable to owners of the parent						Total equity £m
		Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non-controlling interests £m	
Balance at 1 January 2019		614	26,606	(333)	38,557	65,444	244	65,688
Total comprehensive (expense)/income for the year comprising:		–	–	(3,190)	5,190	2,000	126	2,126
Profit for the year		–	–	–	5,704	5,704	145	5,849
Other comprehensive expense for the year		–	–	(3,190)	(514)	(3,704)	(19)	(3,723)
Other changes in equity								
Cash flow hedges reclassified and reported in total assets		–	–	(32)	–	(32)	–	(32)
Employee share options								
– value of employee services	24	–	–	–	115	115	–	115
– proceeds from shares issued		–	3	–	–	3	–	3
Dividends and other appropriations								
– ordinary shares	18(e)	–	–	–	(3,476)	(3,476)	–	(3,476)
– to non-controlling interests		–	–	–	–	–	(148)	(148)
Purchase of own shares								
– held in employee share ownership trusts		–	–	–	(117)	(117)	–	(117)
Other movements non-controlling interests	23	–	–	–	–	–	36	36
Other movements		–	–	–	(35)	(35)	–	(35)
Balance at 31 December 2019		614	26,609	(3,555)	40,234	63,902	258	64,160

The accompanying notes are an integral part of these consolidated financial statements.



	Attributable to owners of the parent							Total equity £m
	Notes	Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non-controlling interests £m	
Balance at 31 December 2017		614	26,602	(3,392)	36,935	60,759	222	60,981
Accounting policy change (IFRS 9) (note 30)		–	–	(9)	(29)	(38)	–	(38)
Revised balance at 1 January 2018		614	26,602	(3,401)	36,906	60,721	222	60,943
Total comprehensive income for the year comprising:		–	–	3,090	6,149	9,239	185	9,424
Profit for the year		–	–	–	6,032	6,032	178	6,210
Other comprehensive income for the year		–	–	3,090	117	3,207	7	3,214
Other changes in equity								
Cash flow hedges reclassified and reported in total assets		–	–	(22)	–	(22)	–	(22)
Employee share options								
– value of employee services	24	–	–	–	121	121	–	121
– proceeds from shares issued		–	4	–	–	4	–	4
Dividends and other appropriations								
– ordinary shares		–	–	–	(4,463)	(4,463)	–	(4,463)
– to non-controlling interests		–	–	–	–	–	(163)	(163)
Purchase of own shares								
– held in employee share ownership trusts		–	–	–	(139)	(139)	–	(139)
Non-controlling interests – acquisitions		–	–	–	(11)	(11)	–	(11)
Other movements		–	–	–	(6)	(6)	–	(6)
Balance at 31 December 2018		614	26,606	(333)	38,557	65,444	244	65,688

The accompanying notes are an integral part of these consolidated financial statements.



Financial Statements

Group Balance Sheet

		31 December	
	Notes	2020 £m	2019 £m
Assets			
Intangible assets	8	115,343	118,787
Property, plant and equipment	9	5,060	5,518
Investments in associates and joint ventures	10	1,796	1,860
Retirement benefit assets	11	714	430
Deferred tax assets	12	534	424
Trade and other receivables	13	242	248
Investments held at fair value	14	22	12
Derivative financial instruments	15	367	452
Total non-current assets		124,078	127,731
Inventories	16	5,998	6,094
Income tax receivable		79	122
Trade and other receivables	13	3,721	4,093
Investments held at fair value	14	242	123
Derivative financial instruments	15	430	313
Cash and cash equivalents	17	3,139	2,526
		13,609	13,271
Assets classified as held-for-sale		3	3
Total current assets		13,612	13,274
Total assets		137,690	141,005
Equity – capital and reserves			
Share capital	18(a)	614	614
Share premium, capital redemption and merger reserves	18(b)	26,618	26,609
Other reserves	18(c)	(6,600)	(3,555)
Retained earnings	18(c)	42,041	40,234
Owners of the parent		62,673	63,902
Non-controlling interests	18(d)	282	258
Total equity		62,955	64,160
Liabilities			
Borrowings	19	39,927	37,804
Retirement benefit liabilities	11	1,524	1,459
Deferred tax liabilities	12	16,314	17,050
Other provisions for liabilities	20	387	388
Trade and other payables	21	1,064	1,034
Derivative financial instruments	15	41	287
Total non-current liabilities		59,257	58,022
Borrowings	19	4,041	7,562
Income tax payable		868	683
Other provisions for liabilities	20	598	670
Trade and other payables	21	9,693	9,727
Derivative financial instruments	15	278	181
Total current liabilities		15,478	18,823
Total equity and liabilities		137,690	141,005

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board

Richard Burrows
Chairman

16 February 2021



Group Cash Flow Statement

	Notes	For the years ended 31 December		
		2020 £m	2019 £m	2018 £m
Profit from operations		9,962	9,016	9,313
Adjustments for				
– depreciation, amortisation and impairment costs	3(b)	1,450	1,512	1,038
– increase in inventories		(144)	(371)	(192)
– decrease/(increase) in trade and other receivables		300	(699)	502
– decrease in receivables related to the charge in respect of the Quebec Class Actions	13	–	436	–
– increase/(decrease) in Master Settlement Agreement payable	3(d)	369	(124)	1,364
– (decrease)/increase in trade and other payables		(320)	730	123
– decrease in net retirement benefit liabilities		(96)	(40)	(100)
– increase/(decrease) in other provisions for liabilities		–	382	(107)
– other non-cash items		46	106	31
Cash generated from operating activities		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
Cash flows from investing activities				
Interest received		48	80	52
Purchases of property, plant and equipment		(511)	(664)	(758)
Proceeds on disposal of property, plant and equipment		44	34	38
Purchases of intangibles		(244)	(151)	(185)
Purchases of investments		(343)	(191)	(320)
Proceeds on disposals of investments		184	339	167
Investment in associates and acquisitions of other subsidiaries net of cash acquired		39	(86)	(32)
Proceeds on disposal of non-core business net of cash disposed		–	–	17
Net cash used in investing activities		(783)	(639)	(1,021)
Cash flows from financing activities				
Interest paid		(1,737)	(1,601)	(1,557)
Interest element of lease liabilities		(26)	(32)	(2)
Capital element of lease liabilities		(164)	(154)	(10)
Proceeds from increases in and new borrowings		9,826	4,247	2,111
(Outflows)/inflows relating to derivative financial instruments		(283)	(564)	49
Purchases of own shares held in employee share ownership trusts		(18)	(117)	(139)
Reductions in and repayments of borrowings		(10,633)	(5,640)	(5,586)
Dividends paid to owners of the parent		(4,745)	(4,598)	(4,347)
Capital injection from/(purchases of) non-controlling interests		17	20	(11)
Dividends paid to non-controlling interests		(136)	(157)	(142)
Other		2	3	4
Net cash used in financing activities		(7,897)	(8,593)	(9,630)
Net cash flows generated from/(used in) operating, investing and financing activities		1,106	(236)	(356)
Differences on exchange		(253)	(57)	(138)
Increase/(decrease) in net cash and cash equivalents in the year		853	(293)	(494)
Net cash and cash equivalents at 1 January		2,035	2,328	2,822
Net cash and cash equivalents at 31 December	17	2,888	2,035	2,328

The accompanying notes are an integral part of these consolidated financial statements.



Financial Statements

Notes on Accounts

1 Accounting Policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU) ('IFRS as adopted by the EU'). International Financial Reporting Standards as adopted by the EU differ in certain respects from IFRS as issued by the IASB. The differences have no impact on the Group's consolidated financial statements for the periods presented.

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention except as described in the accounting policy below on financial instruments. In performing its going concern assessment, management considered forecasts and liquidity requirements within the going concern period.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. The key estimates and assumptions are set out in the accounting policies below, together with the related notes to the accounts.

The critical accounting judgements include:

- the identification and quantification of adjusting items, which are separately disclosed as memorandum information, is explained below and the impact of these on the calculation of adjusted earnings per share is described in note 7;
- the determination as to whether to recognise provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims, as well as other contingent liabilities. The accounting policy on contingent liabilities, which are not provided for, is set out below and the contingent liabilities of the Group are explained in note 27. Judgement is necessary to assess the likelihood that a pending claim is probable (more likely than not to succeed), possible or remote;
- the determination as to whether control (subsidiaries), joint control (joint arrangements), or significant influence (associates) exists in relation to the investments held by the Group. This is assessed after taking into account the Group's ability to appoint Directors to the entity's Board, its relative shareholding compared with other shareholders, any significant contracts or arrangements with the entity or its other shareholders and other relevant facts and circumstances. The application of these policies to Group subsidiaries in territories including Canada and Malaysia is explained in note 28; and
- the 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.

The critical accounting estimates include:

- the review of asset values, especially indefinite life assets such as goodwill and certain trademarks and similar intangibles. The key assumptions used in respect of the impairment testing are the determination of cash-generating units, the budgeted and forecast cash flows of these units, the long-term growth rate for cash flow projections and the rate used to discount the cash flow projections. These are described in note 8;

- the estimation of and accounting for retirement benefit costs. The determination of the carrying value of assets and liabilities, as well as the charge for the year, and amounts recognised in other comprehensive income, involves judgements made in conjunction with independent actuaries. These involve estimates about uncertain future events based on the environment in different countries, including life expectancy of scheme members, salary and pension increases, inflation, as well as discount rates and asset values at the year-end. The assumptions used by the Group and sensitivity analysis are described in note 11; and
- the estimation of amounts to be recognised in respect of taxation and legal matters, and the estimation of other provisions for liabilities and charges are subject to uncertain future events, may extend over several years and so the amount and/or timing may differ from current assumptions. The accounting policy for taxation is explained below. The recognised deferred tax assets and liabilities, together with a note of unrecognised amounts, are shown in note 12, and a contingent tax asset is explained in note 6(b). Other provisions for liabilities and charges are as set out in note 20. Litigation related deposits are shown in note 13. The application of these accounting policies to the payments made and credits recognised under the Master Settlement Agreement by Reynolds American Inc. (Reynolds American) is described in note 3(d).

Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgement at the date of the financial statements. In the future, actual experience may deviate from these estimates and assumptions, which could affect the financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

These consolidated financial statements were authorised for issue by the Board of Directors on 16 February 2021.

Basis of consolidation

The consolidated financial information includes the financial statements of British American Tobacco p.l.c. and its subsidiary undertakings, collectively 'the Group', together with the Group's share of the results of its associates and joint arrangements.

A subsidiary is an entity controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Associates comprise investments in undertakings, which are not subsidiary undertakings or joint arrangements, where the Group's interest in the equity capital is long-term and over whose operating and financial policies the Group exercises a significant influence. They are accounted for using the equity method.

Joint arrangements comprise contractual arrangements where two or more parties have joint control and where decisions regarding the relevant activities of the entity require unanimous consent.

Joint operations are jointly-controlled arrangements where the parties to the arrangement have rights to the underlying assets and obligations for the underlying liabilities relating to the arrangement.

The Group accounts for its share of the assets, liabilities, income and expenses of any such arrangement. Joint ventures comprise arrangements where the parties to the arrangement have rights to the net assets of the arrangement. They are accounted for using the equity method.



1 Accounting Policies Continued

Foreign currencies and hyperinflationary territories

The functional currency of the Parent Company is sterling and this is also the presentation currency of the Group. The income and cash flow statements of Group undertakings expressed in currencies other than sterling are translated to sterling using exchange rates applicable to the dates of the underlying transactions. Average rates of exchange in each year are used where the average rate approximates the relevant exchange rate at the date of the underlying transactions. Assets and liabilities of Group undertakings are translated at the applicable rates of exchange at the end of each year. In territories where there are restrictions on the free access to foreign currency or multiple exchange rates, the applicable rates of exchange are regularly reviewed.

The differences between retained profits translated at average and closing rates of exchange are taken to reserves, as are differences arising on the retranslation to sterling (using closing rates of exchange) of overseas net assets at the beginning of the year, and are presented as a separate component of equity. They are recognised in the income statement when the gain or loss on disposal of a Group undertaking is recognised.

Foreign currency transactions are initially recognised in the functional currency of each entity in the Group using the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of foreign currency assets and liabilities at year-end rates of exchange are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges, on intercompany net investment loans and qualifying net investment hedges. Foreign exchange gains or losses recognised in the income statement are included in profit from operations or net finance costs depending on the underlying transactions that gave rise to these exchange differences.

In addition, for hyperinflationary countries where the effect on the Group results would be significant, the financial statements in local currency are adjusted to reflect the impact of local inflation prior to translation into sterling, in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies*. Where applicable, IAS 29 requires all transactions to be indexed by an inflationary factor to the balance sheet date, potentially leading to a monetary gain or loss on indexation. In addition, the Group assesses the carrying value of fixed assets after indexation and applies IAS 36 *Impairment of Assets*, where appropriate, to ensure that the carrying value correctly reflects the economic value of such assets.

The results and balance sheets of operations in hyperinflationary territories are translated at the period end rate. In the case of Venezuela, the Group uses an estimated exchange rate calculated by reflecting the development of the general price index since the Group last achieved meaningful repatriation of dividends.

Revenue

Revenue principally comprises sales of cigarettes, other tobacco products, and nicotine products, to external customers. Revenue excludes duty, excise and other taxes related to sales in the period and is stated after deducting rebates, returns and other similar discounts and payments to direct and indirect customers. Revenue is recognised when control of the goods is transferred to a customer; this is usually evidenced by a transfer of the significant risks and rewards of ownership upon delivery to the customer, which in terms of timing is not materially different to the date of shipping.

Retirement benefit costs

The Group operates both defined benefit and defined contribution schemes including post-retirement healthcare schemes. For defined benefit schemes, the actuarial cost charged to profit from operations consists of current service cost, net interest on the net defined benefit liability or asset, past service cost and the impact of any settlements. The net deficit or surplus for each defined benefit pension scheme is calculated in accordance with IAS 19 *Employee Benefits* based on the present value of the defined benefit obligation at the balance sheet date less the fair value of the scheme assets adjusted, where appropriate, for any surplus restrictions or the effect of minimum funding requirements. Some benefits are provided through defined contribution schemes and payments to these are charged as an expense as they fall due.

Share-based payments

The Group has equity-settled and cash-settled share-based compensation plans.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of awards that will eventually vest. For plans where vesting conditions are based on total shareholder returns, the fair value at date of grant reflects these conditions, whereas earnings per share vesting conditions are reflected in the calculation of awards that will eventually vest over the vesting period.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at its current fair value determined at each balance sheet date.

Fair value is measured by the use of the Black-Scholes option pricing model, except where vesting is dependent on market conditions when the Monte-Carlo option pricing model is used. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Research and development

Research expenditure is charged to income in the year in which it is incurred. Development expenditure is charged to income in the year it is incurred, unless it meets the recognition criteria of IAS 38 *Intangible Assets* to be capitalised as an intangible asset.

Taxation

Taxation is chargeable on the profits for the period, together with deferred taxation. The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries, associates and joint arrangements operate and generate taxable income.

Deferred taxation is provided in full using the liability method for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax is determined using the tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the statement of other comprehensive income or the statement of changes in equity.



Financial Statements

Notes on Accounts Continued

1 Accounting Policies Continued

The Group has exposures in respect of the payment or recovery of a number of taxes. With effect from 1 January 2019, the Group adopted the requirements of IFRIC 23 *Uncertainty over Income Tax Treatments* which requires that, where there is uncertainty as to whether a particular tax treatment will be accepted by the relevant taxation authority, the financial statements reflect the probable outcome with estimated amounts determined based on the most likely amount or expected value, depending on which method is expected to better predict the resolution of the uncertainty. Prior to 1 January 2019, liabilities or assets for these payments or recoveries were recognised at such time as an outcome became probable and when the amount could reasonably be estimated.

Goodwill

Goodwill arising on acquisitions is capitalised and any impairment of goodwill is recognised immediately in the income statement and is not subsequently reversed.

Goodwill in respect of subsidiaries is included in intangible assets. In respect of associates and joint ventures, goodwill is included in the carrying value of the investment in the associated company or joint venture. On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets other than goodwill

The intangible assets shown on the Group balance sheet consist mainly of trademarks and similar intangibles, including certain intellectual property, acquired by the Group's subsidiary undertakings and computer software.

Acquired trademarks and similar assets are carried at cost less accumulated amortisation and impairment. Trademarks with indefinite lives are not amortised but are reviewed annually for impairment. Other trademarks and similar assets are amortised on a straight-line basis over their remaining useful lives, consistent with the pattern of economic benefits expected to be received, which do not exceed 20 years. Any impairments of trademarks are recognised in the income statement but increases in trademark values are not recognised.

Computer software is carried at cost less accumulated amortisation and impairment, and, with the exception of global software solutions, is amortised on a straight-line basis over periods ranging from three years to five years. Global software solutions are software assets designed to be implemented on a global basis and used as a standard solution by all of the operating companies in the Group. These assets are amortised on a straight-line basis over periods not exceeding 10 years.

With effect from 1 January 2021, Global software solutions will be amortised on a straight-line basis over periods not exceeding 13 years. The revision in useful economic life is a result of ongoing use of Global software solutions due to the extension of third-party supplier support. In 2021 and 2022, the estimated impact of this change in accounting estimate is a reduction in annual amortisation expense of £26 million and, in 2023, a reduction in annual amortisation expense of £12 million.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis to write off the assets over their useful economic life. No depreciation is provided on freehold land or assets classified as held-for-sale. Freehold and leasehold property are depreciated at rates between 2.5% and 4% per annum, and plant and equipment at rates between 3% and 25% per annum.

With effect from 1 January 2018, the Group has changed certain estimates of useful economic lives for cigarette-making machinery across the Group, harmonising depreciation rates used by the historical BAT Group and by Reynolds from 14 years and 30 years, respectively, to a standard 20-year life (5% per annum).

Capitalised interest

Borrowing costs which are directly attributable to the acquisition, construction or production of intangible assets or property, plant and equipment that takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the asset.

Leased assets

With effect from 1 January 2019, the Group has applied IFRS 16 *Leases* to contractual arrangements which are, or contain, leases of assets, and consequently recognises right-of-use assets and lease liabilities at the commencement of the leasing arrangement, with the assets included as part of property, plant and equipment in note 9 and the liabilities included as part of borrowings in note 19.

In adopting IFRS 16, the Group applied the modified retrospective approach with no restatement of prior periods, as permitted by the Standard.

The Group took advantage of certain practical expedients available under the Standard, including 'grandfathering' previously recognised lease arrangements such that contracts were not reassessed at the implementation date as to whether they were, or contained, a lease, and leases previously classified as finance leases under IAS 17 *Leases* remained capitalised on the adoption of IFRS 16. In addition, as part of the implementation, the Group has applied a single discount rate to portfolios of leases with reasonably similar characteristics, has assessed whether individual leases are onerous prior to applying the Standard, has applied hindsight in determining the lease term if the contract contains options to extend or terminate the lease, and has not applied the capitalisation requirements of the Standard to leases for which the lease term ends within 12 months of the date of initial application.

For leasing arrangements entered into after 1 January 2019, the Group has also adopted several practical expedients available under the Standard including not applying the requirements of IFRS 16 to leases of intangible assets, applying the portfolio approach where appropriate to do so, and to not apply the recognition and measurement requirements of IFRS 16 to short-term leases (leases of less than 12 months maximum duration) or leases of low-value assets. Except for property-related leases, non-lease components have not been separated from lease components.

Lease liabilities are initially recognised at an amount equal to the present value of estimated contractual lease payments at the inception of the lease, after taking into account any options to extend the term of the lease. Lease commitments are discounted to present value using the interest rate implicit in the lease if this can be readily determined, or the applicable incremental rate of borrowing, as appropriate. Right-of-use lease assets are initially recognised at an amount equal to the lease liability, adjusted for initial direct costs in relation to the assets, then depreciated over the shorter of the lease term and their estimated useful lives.



1 Accounting Policies Continued

Prior to 1 January 2019, the Group applied IAS 17 *Leases*. Arrangements where the Group had substantially all the risks and rewards of ownership of the leased asset were classified as finance leases and were included as part of property, plant and equipment. Finance lease assets were initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease, then depreciated over the shorter of the lease term and their estimated useful lives. Lease payments due were shown as a liability within borrowings. Lease payments were shown within financing activities in the cash flow statement and consisted of capital and finance charge elements, with the finance element charged to the income statement. Under IAS 17, leases which were not classified as finance leases were classified as operating leases and such arrangements were not capitalised. Rental payments under operating leases were charged to operating profit on a straight-line basis over the lease term.

Impairment of non-financial assets

Assets are reviewed for impairment whenever events indicate that the carrying amount of a cash-generating unit may not be recoverable. In addition, assets that have indefinite useful lives are tested annually for impairment. An impairment loss is recognised to the extent that the carrying value exceeds the higher of the asset's fair value less costs to sell and its value-in-use.

A cash-generating unit is the smallest identifiable group of assets that generates cash flows which are largely independent of the cash flows from other assets or groups of assets. At the acquisition date, any goodwill acquired is allocated to the relevant cash-generating unit or group of cash-generating units expected to benefit from the acquisition for the purpose of impairment testing of goodwill.

Impairment of financial assets held at amortised cost

Loss allowances for expected credit losses on financial assets which are held at amortised cost are recognised on initial recognition of the underlying asset. As permitted by IFRS 9 *Financial Instruments*, loss allowances on trade receivables arising from the recognition of revenue under IFRS 15 *Revenue from Contracts with Customers* are initially measured at an amount equal to lifetime expected losses. Allowances in respect of loans and other receivables are initially recognised at an amount equal to 12-month expected credit losses. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average cost incurred in acquiring inventories and bringing them to their existing location and condition, which will include raw materials, direct labour and overheads, where appropriate. Net realisable value is the estimated selling price less costs to completion and sale. Tobacco inventories which have an operating cycle that exceeds 12 months are classified as current assets, consistent with recognised industry practice.

Financial instruments

The Group's business model for managing financial assets is set out in the Group Treasury Manual which notes that the primary objective with regard to the management of cash and investments is to protect against the loss of principal. Additionally, the Group aims: to maximise Group liquidity by concentrating cash at the Centre, to align the maturity profile of external investments with that of the forecast liquidity profile, to wherever practicable, match the interest rate profile of external investments to that of debt maturities or fixings, and to optimise the investment yield within the Group's investment parameters. The majority of financial assets are held in order to collect contractual cash flows (typically cash and cash equivalents and loans and other receivables) but some assets (typically investments) are held for investment potential.

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions. Such assets and liabilities are classified as current if they are expected to be realised or settled within 12 months after the balance sheet date. If not, they are classified as non-current. In addition, current liabilities include amounts where the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

With effect from 1 January 2019, the Group early adopted the phase one Amendments to IFRS 9 and IFRS 7 regarding Interest Rate Benchmark Reform. The Amendments provide an exemption for certain hedging relationships directly affected by changes in interest rate benchmarks where the reform gives rise to uncertainties regarding the interest rate designated as a hedged risk, or the timing or amount of interest rate cashflows of either the hedged item or of the hedging instrument, such that without the exemption the relationship might not qualify for hedge accounting. In addition, with effect from 1 January 2020, the Group has early adopted the phase two Amendments which provide a practical expedient for financial assets and financial liabilities that are modified, or have existing contractual terms activated that change the basis for determining the contractual cash flows, as a result of Interest Rate Benchmark Reform, such that the change to the contractual cash flows is applied prospectively by revising the effective interest rate. The impact on the Group's profit or equity from these amendments was not material.



Financial Statements

Notes on Accounts Continued

1 Accounting Policies Continued

Non-derivative financial assets are classified on initial recognition in accordance with the Group's business model as investments, loans and receivables, or cash and cash equivalents and accounted for as follows:

- **Investments:** these are non-derivative financial assets that cannot be classified as loans and other receivables or cash and cash equivalents. Dividend and interest income on these investments are included within finance income when the Group's right to receive payments is established. This category includes financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income.
- **Loans and other receivables:** these are non-derivative financial assets with fixed or determinable payments that are solely payments of principal and interest on the principal amount outstanding, that are primarily held in order to collect contractual cash flows. These balances include trade and other receivables and are measured at amortised cost, using the effective interest rate method, and stated net of allowances for credit losses. In addition, as explained in note 13, certain litigation related deposits are recognised as assets within loans and other receivables where management has determined that these payments represent a resource controlled by the entity as a result of past events. These deposits are held at the fair value of consideration transferred less impairment, if applicable, and have not been discounted.
- **Cash and cash equivalents:** cash and cash equivalents include cash in hand and deposits held on call, together with other short-term highly liquid investments including investments in certain money market funds. Cash equivalents normally comprise instruments with maturities of three months or less at their date of acquisition. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts, which are included as current borrowings in the liabilities section on the balance sheet.

Fair values for quoted investments are based on observable market prices. If there is no active market for a financial asset, the fair value is established by using valuation techniques principally involving discounted cash flow analysis.

Non-derivative financial liabilities, including borrowings and trade payables, are stated at amortised cost using the effective interest method. For borrowings, their carrying value includes accrued interest payable, as well as unamortised issue costs. As shown in note 19, certain borrowings are subject to fair value hedges, as defined below.

Derivative financial assets and liabilities are initially recognised, and subsequently measured, at fair value, which includes accrued interest receivable and payable where relevant. Changes in their fair values are recognised as follows:

- for derivatives that are designated as *cash flow hedges*, the changes in their fair values are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the income statement. Where the hedged item results in a non-financial asset, the accumulated gains and losses, previously recognised in other comprehensive income, are included in the initial carrying value of the asset (basis adjustment) and recognised in the income statement in the same periods as the hedged item. Where the underlying transaction does not result in such an asset, the accumulated gains and losses are reclassified to the income statement in the same periods as the hedged item;
- for derivatives that are designated as *fair value hedges*, the carrying value of the hedged item is adjusted for the fair value changes attributable to the risk being hedged, with the corresponding entry being made in the income statement. The changes in fair value of these derivatives are also recognised in the income statement;
- for derivatives that are designated as *hedges of net investments in foreign operations*, the changes in their fair values are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the income statement. Where non-derivatives such as foreign currency borrowings are designated as net investment hedges, the relevant exchange differences are similarly recognised. The accumulated gains and losses are reclassified to the income statement when the foreign operation is disposed of; and
- for derivatives that do not qualify for hedge accounting or are not designated as hedges, the changes in their fair values are recognised in the income statement in the period in which they arise. These are referred to as 'held-for-trading'.

In order to qualify for hedge accounting, the Group is required to document prospectively the economic relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate an assessment of the economic relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is re-performed periodically to ensure that the hedge has remained, and is expected to remain, highly effective.

Hedge accounting is discontinued when a hedging instrument is derecognised (e.g. through expiry or disposal), or no longer qualifies for hedge accounting. Where the hedged item is a highly probable forecast transaction, the related gains and losses remain in equity until the transaction takes place, when they are reclassified to the income statement in the same manner as for cash flow hedges as described above. When a hedged future transaction is no longer expected to occur, any related gains and losses, previously recognised in other comprehensive income, are immediately reclassified to the income statement.

Derivative fair value changes recognised in the income statement are either reflected in arriving at profit from operations (if the hedged item is similarly reflected) or in finance costs.



1 Accounting Policies Continued

Dividends

With effect from 1 January 2018, the Company has moved to four interim quarterly dividend payments, and, as referred to in note 18 (e), from 2019 the Company and Group recognise the interim dividend in the period in which it is paid.

Segmental analysis

The Group is organised and managed on the basis of its geographic regions. These are the reportable segments for the Group as they form the focus of the Group's internal reporting systems and are the basis used by the chief operating decision maker, identified as the Management Board, for assessing performance and allocating resources.

The Group is primarily a single product business providing cigarettes and other tobacco products. While the Group has clearly differentiated brands, global segmentation between a wide portfolio of brands is not part of the regular internally reported financial information. The results of New Category products are reported as part of the results of each geographic region, and are not currently material to the Group.

The prices agreed between Group companies for intra-group sales of materials, manufactured goods, charges for royalties, commissions, services and fees, are based on normal commercial practices which would apply between independent businesses. Royalty income, less related expenditure, is included in the region in which the licensor is based.

Adjusting items

Adjusting items are significant items of income or expense 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 because of their size, nature or incidence. In identifying and quantifying adjusting items, the Group consistently applies a policy that defines criteria that are required to be met for an item to be classified as adjusting. These items are separately disclosed in the segmental analyses or in the notes to the accounts as appropriate.

The Group believes that these items are useful to users of the Group financial statements in helping them to understand the underlying business performance and are used to derive the Group's principal non-GAAP measures of adjusted revenue, adjusted profit from operations and adjusted diluted earnings per share, all of which are before the impact of adjusting items and which are reconciled from revenue, profit from operations and diluted earnings per share.

Provisions

Provisions are recognised when either a legal or constructive obligation as a result of a past event exists at the balance sheet date, it is probable that an outflow of economic resources will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

Contingent liabilities and contingent assets

Subsidiaries and associate companies are defendants in tobacco-related and other litigation. Provision for this litigation (including legal costs) is made at such time as an unfavourable outcome becomes probable and the amount can be reasonably estimated.

Contingent assets are possible assets whose existence will only be confirmed by future events not wholly within the control of the entity and are not recognised as assets until the realisation of income is virtually certain.

Where a provision has not been recognised, the Group records its external legal fees and other external defence costs for tobacco-related and other litigation as these costs are incurred.

As explained in note 13, certain litigation-related deposits are recognised as assets within loans and other receivables where management has determined that these payments represent a resource controlled by the entity. These deposits are held at the fair value of consideration transferred less impairment, if applicable, and have not been discounted.

Repurchase of share capital

When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares which are not cancelled, or shares purchased for the employee share ownership trusts, are classified as treasury shares and presented as a deduction from total equity.

Future changes to accounting policies

Certain changes to IFRS will be applicable to the Group financial statements in future years, but are not expected to have a material effect on reported profit or equity or on the disclosures in the financial statements.



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2 Segmental Analyses

The chief operating decision maker, the Management Board, reviews adjusted profit from operations at constant currencies to evaluate segment performance and allocate resources to the overall business. The Management Board also reviews at constant currencies external adjusted revenues, which are included within adjusted profit from operations. The results of New Categories (comprising Tobacco Heating Products, Vapour products and Modern Oral products) are reported to the Management Board as part of the results of each geographic region. However, additional information has been provided based on product category. Interest income, interest expense and taxation are centrally managed and accordingly such items are not presented by segment as they are excluded from the measure of segment profitability.

The four geographic regions are the reportable segments for the Group as they form the focus of the Group's internal reporting systems and are the basis used by the Management Board for assessing performance and allocating resources. Transactions between Group subsidiaries are conducted on arm's length terms in accordance with appropriate transfer pricing rules and Organisation for Economic Cooperation & Development (OECD) principles. The Management Board reviews current and prior year adjusted segmental revenue, adjusted profit from operations of subsidiaries and joint operations, and adjusted post-tax results of associates and joint ventures at constant rates of exchange. The constant rate comparison provided for reporting segment information is based on a retranslation, at prior year exchange rates, of the current year results of the Group, including intercompany royalties payable in foreign currency to UK entities. However, the Group does not adjust for the normal transactional gains and losses in operations which are generated by movements in exchange rates.

In respect of the United States region, all financial statements and financial information provided by or with respect to the US business or RAI (and/or RAI and its subsidiaries (collectively, the 'Reynolds Group')) are prepared on the basis of US GAAP and constitute the primary financial statements or financial information of the US business or RAI (and/or the Reynolds Group). Solely for the purpose of consolidation within the results of BAT p.l.c. and the BAT Group, this financial information is then converted to IFRS. To the extent any such financial information provided in these financial statements relates to the US business or RAI (and/or the Reynolds Group), it is provided as an explanation of the US business's or RAI's (and/or the Reynolds Group's) primary US GAAP based financial statements and information.

The following table shows 2020 revenue and adjusted revenue at current rates, and 2020 revenue translated using 2019 rates of exchange. The 2019 figures are stated at the 2019 rates of exchange.

	2020					2019		
	Adjusted Revenue Constant rates £m	Translation exchange £m	Adjusted Revenue Current rates £m	Adjusting items Current rates £m	Revenue Current rates £m	Adjusted Revenue £m	Adjusting items £m	Revenue £m
United States	11,536	(63)	11,473	–	11,473	10,373	–	10,373
APME	4,644	(107)	4,537	–	4,537	5,153	–	5,153
AMSSA	4,321	(549)	3,772	–	3,772	4,261	–	4,261
ENA	6,169	(175)	5,994	–	5,994	6,040	50	6,090
Revenue	26,670	(894)	25,776	–	25,776	25,827	50	25,877

Note: adjusting items in revenue are in respect of excise included in goods acquired from a third party under short-term arrangements and then passed on to customers. This is deemed as adjusting due to the distorting nature to revenue and operating margin. From 2020 onwards, such arrangements have been discontinued or are immaterial such that no adjustments have been made in 2020.

In 2020, the translation exchange in AMSSA was driven by the depreciation of key currencies against the pound sterling including the Brazilian real.



2 Segmental Analyses Continued

The following table shows 2019 revenue and adjusted revenue at current rates, and 2019 adjusted revenue translated using 2018 rates of exchange. The 2018 figures are stated at the 2018 rates of exchange.

	2019					2018		
	Adjusted Revenue Constant rates £m	Translation exchange £m	Adjusted Revenue Current rates £m	Adjusting items Current rates £m	Revenue Current rates £m	Adjusted Revenue £m	Adjusting items £m	Revenue £m
United States	9,917	456	10,373	–	10,373	9,495	–	9,495
APME	5,157	(4)	5,153	–	5,153	4,882	–	4,882
AMSSA	4,491	(230)	4,261	–	4,261	4,111	–	4,111
ENA	6,118	(78)	6,040	50	6,090	5,824	180	6,004
Revenue	25,683	144	25,827	50	25,877	24,312	180	24,492

Note: adjusting items in revenue are in respect of excise included in goods acquired from a third party under short-term arrangements and then passed on to customers. This is deemed as adjusting due to the distorting nature to revenue and operating margin.

The following table shows 2020 profit from operations and adjusted profit from operations at current rates, and 2020 adjusted profit from operations translated using 2019 rates of exchange. The 2019 figures are stated at the 2019 rates of exchange.

	2020					2019		
	Adjusted* segment result Constant rates £m	Translation exchange £m	Adjusted* segment result Current rates £m	Adjusting* items £m	Segment result Current rates £m	Adjusted* segment result £m	Adjusting* items £m	Segment result £m
United States	5,816	(32)	5,784	(809)	4,975	5,036	(626)	4,410
APME	1,909	(56)	1,853	(381)	1,472	2,059	(306)	1,753
AMSSA	1,796	(178)	1,618	(65)	1,553	1,842	(638)	1,204
ENA	2,140	(30)	2,110	(148)	1,962	2,193	(544)	1,649
Profit from operations	11,661	(296)	11,365	(1,403)	9,962	11,130	(2,114)	9,016
Net finance costs	(1,612)	20	(1,592)	(153)	(1,745)	(1,522)	(80)	(1,602)
APME	465	(26)	439	13	452	470	25	495
ENA	3	–	3	–	3	3	–	3
Share of post-tax results of associates and joint ventures	468	(26)	442	13	455	473	25	498
Profit/(loss) before taxation	10,517	(302)	10,215	(1,543)	8,672	10,081	(2,169)	7,912
Taxation (charge)/credit on ordinary activities	(2,493)	63	(2,430)	322	(2,108)	(2,501)	438	(2,063)
Profit for the year					6,564			5,849

* The adjustments to profit from operations, net finance costs, the Group's share of the post-tax results of associates and joint ventures and taxation are explained in notes 3(e) to 3(h), note 4(b), note 5(a), and note 6(b), 6(d) and 6(e), respectively.

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2 Segmental Analyses Continued

The following table shows 2019 profit from operations and adjusted profit from operations at current rates, and 2019 adjusted profit from operations translated using 2018 rates of exchange. The 2018 figures are stated at the 2018 rates of exchange.

	2019					2018		
	Adjusted* segment result Constant rates £m	Translation exchange £m	Adjusted* segment result Current rates £m	Adjusting* items £m	Segment result Current rates £m	Adjusted* segment result £m	Adjusting* items £m	Segment result £m
United States	4,798	238	5,036	(626)	4,410	4,511	(505)	4,006
APME	2,102	(43)	2,059	(306)	1,753	1,948	(90)	1,858
AMSSA	1,912	(70)	1,842	(638)	1,204	1,738	(194)	1,544
ENA	2,220	(27)	2,193	(544)	1,649	2,150	(245)	1,905
Profit from operations	11,032	98	11,130	(2,114)	9,016	10,347	(1,034)	9,313
Net finance costs	(1,466)	(56)	(1,522)	(80)	(1,602)	(1,385)	4	(1,381)
APME	463	7	470	25	495	384	32	416
ENA	3	–	3	–	3	3	–	3
Share of post-tax results of associates and joint ventures	466	7	473	25	498	387	32	419
Profit/(loss) before taxation	10,032	49	10,081	(2,169)	7,912	9,349	(998)	8,351
Taxation (charge)/credit on ordinary activities	(2,498)	(3)	(2,501)	438	(2,063)	(2,364)	223	(2,141)
Profit for the year					5,849			6,210

* The adjustments to profit from operations, net finance costs, the Group's share of the post-tax results of associates and joint ventures and taxation are explained in notes 3(e) to 3(h), note 4(b), note 5(a), and note 6(b), 6(d) and 6(e), respectively.

Adjusted profit from operations at constant rates of £11,661 million (2019: £11,032 million; 2018: £10,924 million) excludes certain depreciation, amortisation and impairment charges as explained in notes 3(e), 3(f) and 3(h). These are excluded from segmental profit from operations at constant rates as follows:

	2020					2019		
	Adjusted depreciation, amortisation and impairment Constant rates £m	Translation exchange £m	Adjusted depreciation, amortisation and impairment Current rates £m	Adjusting items £m	Depreciation, amortisation and impairment Current rates £m	Adjusted depreciation, amortisation and impairment £m	Adjusting items £m	Depreciation, amortisation and impairment £m
United States	205	(1)	204	272	476	258	391	649
APME	170	(3)	167	274	441	163	182	345
AMSSA	137	(16)	121	34	155	137	35	172
ENA	266	(7)	259	119	378	216	130	346
	778	(27)	751	699	1,450	774	738	1,512

	2019					2018		
	Adjusted depreciation, amortisation and impairment Constant rates £m	Translation exchange £m	Adjusted depreciation, amortisation and impairment Current rates £m	Adjusting items £m	Depreciation, amortisation and impairment Current rates impairment £m	Adjusted depreciation, amortisation and impairment £m	Adjusting items £m	Depreciation, amortisation and impairment £m
United States	249	9	258	391	649	154	289	443
APME	162	1	163	182	345	105	22	127
AMSSA	140	(3)	137	35	172	101	115	216
ENA	218	(2)	216	130	346	143	109	252
	769	5	774	738	1,512	503	535	1,038

2 Segmental Analyses Continued

Additional information by product category

Although the Group's operations are managed on a Regional basis, additional information for revenue is provided based on product category as follows:

	2020					2019		
	Adjusted Revenue Constant rates £m	Translation exchange £m	Adjusted Revenue Current rates £m	Adjusting items Current rates £m	Revenue Current rates £m	Adjusted Revenue £m	Adjusting items £m	Revenue £m
Combustibles	23,594	(842)	22,752	–	22,752	22,951	50	23,001
New Categories	1,449	(6)	1,443	–	1,443	1,255	–	1,255
Vapour	615	(4)	611	–	611	401	–	401
THP	636	(2)	634	–	634	728	–	728
Modern Oral	198	–	198	–	198	126	–	126
Traditional Oral	1,165	(5)	1,160	–	1,160	1,081	–	1,081
Other	462	(41)	421	–	421	540	–	540
Revenue	26,670	(894)	25,776	–	25,776	25,827	50	25,877

	2019					2018		
	Adjusted Revenue Constant rates £m	Translation exchange £m	Adjusted Revenue Current rates £m	Adjusting items Current rates £m	Revenue Current rates £m	Adjusted Revenue £m	Adjusting items £m	Revenue £m
Combustibles	22,892	59	22,951	50	23,001	21,892	180	22,072
New Categories	1,214	41	1,255	–	1,255	917	–	917
Vapour	392	9	401	–	401	318	–	318
THP	693	35	728	–	728	565	–	565
Modern Oral	129	(3)	126	–	126	34	–	34
Traditional Oral	1,036	45	1,081	–	1,081	941	–	941
Other	541	(1)	540	–	540	562	–	562
Revenue	25,683	144	25,827	50	25,877	24,312	180	24,492

External revenue and non-current assets other than financial instruments, deferred tax assets and retirement benefit assets are analysed between the UK and all foreign countries at current rates of exchange as follows:

	United Kingdom			All foreign countries			Group		
	2020 £m	2019 £m	2018 £m	2020 £m	2019 £m	2018 £m	2020 £m	2019 £m	2018 £m
Revenue is based on location of sale									
External revenue	188	178	184	25,588	25,699	24,308	25,776	25,877	24,492

	United Kingdom		All foreign countries		Group	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Intangible assets	487	492	114,856	118,295	115,343	118,787
Property, plant and equipment	344	333	4,716	5,185	5,060	5,518
Investments in associates and joint ventures	8	8	1,788	1,852	1,796	1,860

The consolidated results of the Reynolds Group operating in the United States met the criteria for separate disclosure under the requirements of IFRS 8 *Operating Segments*. Revenue arising from the operations of the Reynolds Group, inclusive of the sales made to fellow Group companies, in 2020, 2019 and 2018 was £11,481 million, £10,417 million and £9,506 million, respectively. The majority of sales are to customers based in the US. Non-current assets attributable to the operations of the Reynolds Group were £105,549 million (2019: £109,186 million).

The main acquisitions comprising the goodwill balance of £43,319 million (2019: £44,316 million), included in intangible assets, are provided in note 8. Included in investments in associates and joint ventures are amounts of £1,724 million (2019: £1,794 million) attributable to the investment in ITC Ltd. Further information is provided in notes 5 and 10.

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3 Profit From Operations

Enumerated below are movements in costs that have impacted profit from operations in 2020, 2019 and 2018. These include changes in our underlying business performance, as well as the impact of adjusting items, as defined in note 1, in profit from operations (note 3(e) to 3(h)).

(a) Employee benefit costs

	2020 £m	2019 £m	2018 £m
Wages and salaries	2,277	2,651	2,463
Social security costs	194	223	207
Other pension and retirement benefit costs (note 11)	182	227	212
Share-based payments – equity and cash-settled (note 24)	91	120	123
	2,744	3,221	3,005

(b) Depreciation, amortisation and impairment costs

	2020 £m	2019 £m	2018 £m
Intangibles			
– amortisation and impairment of trademarks and similar intangibles	360	508	377
– amortisation and impairment of computer software	129	108	111
– impairment of goodwill (note 3(h))	209	194	–
Property, plant and equipment – depreciation and impairment	752	702	550
	1,450	1,512	1,038

Intangibles – amortisation and impairment

The acquisition of businesses has resulted in the capitalisation of certain trademarks and similar intangibles. The amortisation and impairment of these acquired trademarks and similar intangibles are charged to the income statement as adjusting, as explained in note 3(f).

Property, plant and equipment – depreciation and impairment

Gains and losses recognised on disposal of property, plant and equipment are included within depreciation and impairment of property, plant and equipment.

Additionally, impairment costs resulting from obsolete machines in relation to downsizing and factory rationalisation as mentioned in note 3(e) are reported as part of depreciation and impairment of property, plant and equipment.

In 2018, the Group recognised an impairment charge of £110 million in respect of the operations in Venezuela mentioned in note 3(h).



3 Profit From Operations Continued

(c) Other operating expenses include:

	2020 £m	2019 £m	2018 £m
Research and development expenses (excluding employee benefit costs and depreciation)	121	126	105
Exchange differences	(29)	22	(15)
Hedge ineffectiveness within operating profit	(3)	(5)	(8)
Expense relating to short-term leases	10	16	–
Expenses relating to leases of low-value assets	1	1	–
Gains arising from sale and leaseback transactions	(1)	–	–
Rent of plant and equipment (operating leases) – minimum lease payments	–	–	61
Rent of property (operating leases) – minimum lease payments	–	–	110
Auditor's remuneration			
Total expense for audit services pursuant to legislation:			
– fees to KPMG LLP for Parent Company and Group audit	8.7	6.8	6.3
– fees to KPMG LLP firms and associates for local statutory and Group reporting audits	9.9	9.0	8.8
Total audit fees expense – KPMG LLP firms and associates	18.6	15.8	15.1
Audit fees expense to other firms	0.2	0.1	0.2
Total audit fees expense	18.8	15.9	15.3
Fees to KPMG LLP firms and associates for other services:			
– audit-related assurance services	8.5	8.5	9.4
– other assurance services	0.5	0.5	0.3
– tax advisory services	–	–	–
– tax compliance	–	–	–
– audit of defined benefit schemes of the Company	0.5	0.4	0.4
– other non-audit services	–	–	–
	9.5	9.4	10.1

The total auditor's remuneration to KPMG firms and associates included above are £28.1 million (2019: £25.2 million; 2018: £25.2 million).

Under SEC regulations, the remuneration to KPMG firms and associates of £28.1 million in 2020 (2019: £25.1 million; 2018: £25.2 million) is required to be presented as follows: audit fees £27.5 million (2019: £24.7 million; 2018: £24.7 million), audit-related fees £0.5 million (2019: £0.4 million; 2018: £0.4 million), tax fees £nil million (2019: £nil million; 2018: £nil million) and all other fees £0.1 million (2019: £0.1 million; 2018: £0.1 million). Audit related fees are in respect of services provided to associated pension schemes. All other fees are in respect of other assurance services provided over information derived from the financial information systems subject to audit or over the controls over those systems.



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3 Profit From Operations Continued

Total research and development costs including employee benefit costs and depreciation are £307 million (2019: £376 million; 2018: £258 million). Included in the 2019 research and development costs is £65 million of costs primarily related to packages in respect of employee benefit reductions as part of the Group's 2019 restructuring initiative (Quantum), as discussed in note 3(e).

(d) Master Settlement Agreement

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

During 2012, R.J. Reynolds Tobacco Company, Santa Fe Natural Tobacco Company (SFNTC), various other tobacco manufacturers, 17 states, the District of Columbia and Puerto Rico reached an agreement related to the Non-Participating Manufacturer (NPM) adjustment under the MSA and three more states joined the agreement in 2013. Under this agreement, R.J. Reynolds Tobacco Company has received credits of more than US\$1 billion, in respect of its Non-Participating Manufacturer (NPM) Adjustment claims related to the period from 2003 to 2012. These credits have been applied against the companies' MSA payments over a period of five years from 2013, subject to, and dependent upon, meeting the various ongoing performance obligations. During 2014, two additional states agreed to settle NPM disputes related to claims for the period 2003 to 2012. R.J. Reynolds Tobacco Company has received US\$170 million in credits, which has been applied over a five-year period from 2014. During 2015, another state agreed to settle NPM disputes related to claims for the period 2004 to 2014 and included a method to determine future adjustments from 2015 forward. R.J. Reynolds Tobacco Company has received US\$285 million in credits, which was applied over a four-year period from 2016. During 2016, no additional states agreed to settle NPM disputes. During 2017, two more states agreed to settle NPM disputes related to claims for the period 2004 to 2014. It is estimated that R.J. Reynolds Tobacco Company will receive US\$61 million in credits, which will be applied over a five-year period from 2017. During 2018, nine more states agreed to settle NPM disputes related to claims for the period 2004 to 2019, with an option through 2022, subject to certain conditions. It is estimated that R.J. Reynolds Tobacco Company will receive US\$182 million in credits for settled periods through 2017, which will be applied over a five-year period from 2018. Also, in 2018, one additional state agreed to settle NPM disputes related to claims for the period 2004 to 2024, subject to certain conditions. It is estimated that R.J. Reynolds Tobacco Company will receive US\$205 million in credits for settled periods through 2017, which will be applied over a five-year period from 2019. In the first quarter of 2020, certain conditions set forth in the 2017 and 2018 agreements were met for those 10 states. In addition, in August 2020, 24 states, the District of Columbia and Puerto Rico agreed to settle NPM disputes related to claims for the period 2018-2022. Credits in respect of future years' payments and the NPM Adjustment claims would be accounted for in the applicable year and will not be treated as adjusting items. Only credits in respect of prior year payments are included as adjusting items.

The BAT Group is subject to substantial payment obligations under the MSA and the state settlement agreements with the states of Mississippi, Florida, Texas and Minnesota (such settlement agreements, collectively State Settlement Agreements). Reynolds Group's operating subsidiaries' expenses and payments under the MSA and the State Settlement Agreements for 2020 amounted to US\$3,572 million (2019: US\$2,762 million; 2018: US\$2,741 million) in respect of settlement expenses and US\$2,848 million (2019: US\$2,918 million; 2018: US\$917 million) in respect of settlement cash payments. In 2020, R.J. Reynolds Tobacco Company recognised additional expenses, included above, under the state settlement agreements in the states of Mississippi, Florida, Texas and Minnesota. R.J. Reynolds Tobacco Company recognised US\$241 million of expense for payment obligations to the State of Florida for the ITG Brands, LLC acquired brands from the date of divestiture, June 12, 2015, as a result of an unfavourable judgment. In addition, R.J. Reynolds Tobacco Company recognised US\$264 million related to the resolution of claims against it in the States of Texas, Minnesota and Mississippi for payment obligations to those states for the ITG Brands, LLC acquired brands from the date of divestiture. Finally, R.J. Reynolds Tobacco Company settled certain related claims with Phillip Morris USA under the state settlement agreements in the states of Mississippi, Texas and Minnesota for US\$8 million. Additional information related to the resolution of these claims is included in note 27.

(e) Restructuring and integration costs

Restructuring costs reflect the costs incurred as a result of initiatives to improve the effectiveness and the efficiency of the Group as a globally integrated enterprise. These costs represent additional expenses incurred that are not related to the normal business and day-to-day activities. These initiatives include a review of the Group's manufacturing operations, and the costs associated with Quantum, being a review of the Group's organisational structure announced in 2019 to simplify the business and create a more efficient, agile and focused company.



3 Profit From Operations Continued

The costs of the Group's initiatives together with the costs of integrating acquired businesses into existing operations, including acquisition costs, are included in profit from operations under the following headings:

	2020 £m	2019 £m	2018 £m
Employee benefit costs	91	364	176
Depreciation, amortisation and impairment costs	151	63	48
Other operating expenses	166	145	145
Other operating income	–	(7)	(6)
	408	565	363

The adjusting charge in 2020 relates to the ongoing restructuring costs associated with the implementation of revisions to the Group's operating model, mainly in relation to Quantum. This includes the cost of packages in respect of permanent headcount reduction and permanent employee benefit reductions in the Group. The costs also cover the downsizing and factory rationalisation activities in the Netherlands, Hungary, Russia and APME.

Also, in 2020, as a consequence of a reduction in volumes due to the significant increase in excise in Indonesia, the Group has announced a restructuring programme which includes the partial closure of the factory operations in Indonesia. As a result of this decision, a £69 million impairment has been recognised in respect of machinery. This impairment charge relates to some of the machinery in use as well machinery held for future use which, following the significant recent changes in consumer preferences, is not expected to be brought in to manufacturing in the future.

The adjusting charge in 2019 relates to the ongoing restructuring costs associated with the implementation of revisions to the Group's operating model, mainly in relation to Quantum. This includes the cost of packages in respect of permanent headcount reduction and permanent employee benefit reductions in the Group. The costs also cover the downsizing and factory rationalisation activities in Germany, Russia and APME. Included in other operating income are amounts related to cash and reversal of deferred consideration associated with the acquisition of TDR d.o.o. (TDR) (note 23).

Restructuring and integration costs in 2018 include integration costs associated with the acquisition of Reynolds American and ongoing costs of implementing the revisions to the Group's operating model. This includes the cost of packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group. The costs also cover downsizing activities in Russia, Germany and APME. Included in other operating income are gains from the sale of land and buildings in the Netherlands.

(f) Amortisation and impairment of trademarks and similar intangibles

Acquisitions in previous years have resulted in the capitalisation of trademarks and similar intangibles, including those which are amortised over their expected useful lives, which do not exceed 20 years. The amortisation and impairment charge of £339 million (2019: £481 million; 2018: £377 million) is charged as adjusting and included in depreciation, amortisation and impairment costs in the income statement. In 2019, the Group incurred an impairment charge of £129 million, which included the partial impairment of the Kodiak brand, as explained in note 8(c).

(g) Fox River

As explained in note 27, a Group subsidiary has certain liabilities in respect of indemnities given on the purchase and disposal of former businesses in the United States and, in 2011, the subsidiary provided £274 million in respect of claims in relation to environmental clean-up costs of the Fox River.

On 30 September 2014, a Group subsidiary, NCR, Appvion and Windward Prospects entered into a Funding Agreement with regard to the costs for the clean-up of Fox River.

In January 2017, NCR and Appvion entered into a consent decree with the US Government to resolve how the remaining clean-up will be funded and to resolve further outstanding claims between them. The Consent Decree was approved by a US District Judge in August 2017. The US Government enforcement action against NCR was terminated as a result of that order and contribution claims from the Potentially Responsible Parties ('PRPs') against NCR were dismissed. On 4 January 2019, the US Government, P. H. Glatfelter and Georgia-Pacific (the remaining Fox River PRPs) sought approval for a separate Consent Decree to bring an end to all litigation concerning the Fox River clean-up. This Consent Decree was approved by the District Court of the Eastern District of Wisconsin on 14 March 2019 and concludes all existing litigation on the Fox River.

In July 2016, the High Court ruled in a Group subsidiary's favour that a dividend of €135 million paid by Windward to Sequana in May 2009 was a transaction made with the intention of putting assets beyond the reach of the Group subsidiary and of negatively impacting its interests. On 10 February 2017, further to a hearing in January 2017 to determine the relief due, the Court found in the Group subsidiary's favour, ordering that Sequana must pay an amount up to the full value of the dividend plus interest which equates to around US\$185 million, related to past and future clean-up costs.



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3 Profit From Operations Continued

The Court granted all parties leave to appeal and Sequana a stay in respect of the above payments. In June 2018, the Court of Appeal heard arguments in the Sequana Claims Appeal (as defined in note 27). On 6 February 2019, the Court of Appeal gave judgment upholding the High Court's findings, with one immaterial change to the method of calculating the damages awarded. Sequana therefore remains liable to pay the above mentioned dividend. Due to the uncertain outcome of the case no asset has been recognised in relation to this ruling. In February 2017, Sequana entered into a process in France seeking court protection (the 'Sauvegarde'), exiting the Sauvegarde in June 2017. On 7 March 2019, Sequana announced that it was unable to pay its debts and that it had applied to convert the Sauvegarde into 'redressement judiciaire', a form of insolvent receivership. On 15 May 2019, the Nanterre Commercial Court made an order placing Sequana into formal liquidation proceedings ('liquidation judiciaire'). No payments have been received.

The provision is £70 million at 31 December 2020 (2019: £73 million). Based on the Funding Agreement, £3 million has been paid in 2020, which includes legal costs of £1 million (2019: £35 million, including legal costs of £3 million; 2018: £30 million, including legal costs of £5 million).

(h) Other adjusting items

Included within 'other operating expenses'

In 2020, the Group incurred £447 million (2019: £874 million; 2018: £294 million) of other adjusting items which have been adjusted within 'other operating expenses'.

The charge in 2020 primarily includes £487 million (2019: £236 million; 2018: £178 million) of litigation costs. In 2020, this was largely in respect of charges following the development in cases regarding payment obligations under the state settlement agreements with Florida, Texas, Minnesota and Mississippi for brands previously sold to a third party. The Group recognised a charge of £188 million in the period for a final judgment of a case in the Florida court. The Group continues to pursue indemnification remedies in a Delaware court for payments made to Florida as a result of this judgment, as explained in note 27. During 2020, the Group also recognised a provision of £212 million related to the settlement discussions with other manufacturers and the states of Texas, Minnesota and Mississippi for payment obligations related to these brands in prior years. In 2020, the charge also includes £87 million predominantly related to other litigation costs including *Engle* progeny litigation.

Also included in 2020, is a credit of £40 million recognised in relation to the prior year charge associated with the excise dispute in Russia, of which, £14 million is offset in the adjusting items included in taxation (note 6(d)).

In August 2019, the Russian tax authority issued a final audit report to JSC British American Tobacco-SPb (BAT SpB) related to the application of legislation introduced in 2017 that prospectively limited the amount of production that could take place prior to excise tax increases, without being subject to higher excise tax rates. The Final audit report sought to retrospectively apply the legislation to the years 2015 to 2017. BAT SpB submitted an appeal to the Federal Tax Services (FTS) objecting to the findings. The FTS accepted some of BAT SpB's arguments and, on 27 January 2020, a final claim was issued by the FTS. As a consequence, the Group recognised a charge of £202 million included in other adjusting items in 2019. The Group also recognised an interest charge of £50 million (note 4(b)).

Also, in 2019, a charge of £436 million was incurred in respect of the Quebec class actions as explained in note 27.

Included within 'depreciation, amortisation and impairment'

During 2020, the Group impaired the goodwill arising from Malaysia amounting to £197 million, goodwill arising from the acquisition of Twisp of £11 million and goodwill arising from the acquisition of Blue Nile of £1 million, as explained in note 8(e).

During 2019, the Group impaired the goodwill arising from the Bentoel acquisition, amounting to £172 million, goodwill arising from the VapeWild acquisition of £12 million and goodwill arising from the Highendsmoke acquisition of £10 million as explained in note 8(e).

In 2018, the European Securities and Markets Authority (ESMA) recognised the specific issues related to Venezuela and proposed that companies with exposure to Venezuela use an 'estimated' exchange rate rather than the official exchange rate, as otherwise required under IAS 21. Accordingly, the Group has used an exchange rate calculated with reference to the estimated inflation since the latest dividend payment in 2010. In addition, the net assets of the Group's Venezuelan operations are subject to accounting adjustments IAS 29 *Financial Reporting in Hyperinflationary Economies*, as they are revalued, for accounting purposes, from their acquisition date to the balance sheet date. However, management believes that such a revaluation is not reflective of the recoverable value of those assets and have incurred an impairment charge of £110 million. This charge has been treated as an adjusting item as it does not reflect the underlying performance of the Group. The Group has also recognised a monetary gain due to hyperinflation accounting under IAS 29 of £45 million within net finance costs (note 4(b)).

(i) Other operating income

Other operating income comprises income that is associated with the Group's normal activities, but which falls outside the definition of turnover and includes one-off capital profits on property sales and one-off disposals of fixed assets.

As explained in note 27, the Group recognised £58 million (2019: £86 million; 2018: £nil) in respect of a tax case in Brazil. In 2019 and 2018, as discussed in note 3(e) above, certain items of operating income have been incurred as part of the Group's restructuring and integration activities.



4 Net Finance Costs

(a) Net finance costs/(income)

	2020 £m	2019 £m	2018 £m
Interest expense	1,605	1,676	1,592
Interest expense on lease liabilities	26	32	1
Facility fees	23	10	13
Interest and fair value related to early repurchase of bonds (note 4(b))	142	–	–
Interest related to adjusting tax payables (note 4(b))	11	80	41
Venezuela hyperinflation (note 4(b))	–	–	(45)
Fair value changes on derivative financial instruments and hedged items	(217)	367	(154)
Exchange differences	205	(479)	1
Finance costs	1,795	1,686	1,449
Interest under the effective interest method	(50)	(84)	(68)
Finance income	(50)	(84)	(68)
Net finance costs	1,745	1,602	1,381

The Group manages foreign exchange gains and losses and fair value changes on a net basis excluding adjusting items, which are explained in note 4(b). The derivatives that generate the fair value changes are explained in note 15.

Facility fees principally relate to the Group's central banking facilities.

In October 2020, the Group completed a tender offer to repurchase sterling-equivalent £2,653 million of bonds, including £24 million of accrued interest. Following this, in November 2020, the Group also completed a 'make-whole' bond redemption exercise of sterling-equivalent £462 million of bonds, including £6 million of accrued interest. Further details on the tender offer and 'make-whole' redemption exercise are provided in note 22. Other costs directly associated with the early repurchase of bonds, including the premium paid, have been treated as adjusting items, as detailed in note 4(b).

(b) Adjusting items included in net finance costs

Adjusting items are significant items in net finance costs which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance.

In 2020, the Group incurred additional interest costs of £157 million and fair value gains of £15 million in relation to the early repurchase of bonds.

In addition, the Group recognised interest on adjusting tax payables of £11 million (2019: £80 million; 2018: £41 million), which included interest of £21 million (2019: £28 million; 2018: £25 million) in relation to the Franked Investment Income Group Litigation Order (FII GLO) (note 6(b)) and a net credit of £10 million (2019: charge of £50 million, 2018: charge of £12 million) in respect of the excise dispute (note 3(h)) and withholding tax in Russia.

In 2018, the Group recognised a monetary gain of £45 million related to the application of hyperinflationary accounting in Venezuela (note 3(h)).



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5 Associates and Joint Ventures

	Total £m	2020 Group's share £m	Total £m	2019 Group's share £m	Total £m	2018 Group's share £m
Revenue	7,001	1,983	7,581	2,158	7,235	2,058
Profit from operations	2,006	591	2,386	704	2,128	630
Net finance costs	(6)	(2)	(7)	(2)	(8)	(3)
Profit on ordinary activities before taxation	2,000	589	2,379	702	2,120	627
Taxation on ordinary activities	(421)	(125)	(666)	(196)	(678)	(201)
Profit on ordinary activities after taxation	1,579	464	1,713	506	1,442	426
Non-controlling interests	(30)	(9)	(27)	(8)	(24)	(7)
Post-tax results of associates and joint ventures	1,549	455	1,686	498	1,418	419

Enumerated below are movements that have impacted the post-tax results of associates and joint ventures in 2020, 2019 and 2018.

(a) Adjusting items

In 2020, the Group's interest in ITC Ltd. (ITC) decreased from 29.46% to 29.42% (2019: 29.57% to 29.46%; 2018: 29.71% to 29.57%) as a result of ITC issuing ordinary shares under the ITC Employee Share Option Scheme. The issue of these shares and change in the Group's share of ITC resulted in a gain of £17 million (2019: £25 million; 2018: £22 million), which is treated as a deemed partial disposal and included in the income statement.

In 2020, ITC recognised a charge in respect of the cost of leaf tobacco stocks destroyed in a third-party warehouse fire, the Group's share of which was £4 million.

In 2018, ITC also recognised an adjusting gain in respect of the release of certain provisions related to a tax claim, the Group's share of which was £10 million.

(b) Other financial information

The Group's share of the results of associates and joint ventures is shown in the table below.

	2020 Group's share £m	2019 Group's share £m	2018 Group's share £m
Profit on ordinary activities after taxation			
– attributable to owners of the Parent	455	498	419
Other comprehensive income:			
Items that may be reclassified to profit & loss	(98)	(115)	(38)
Items that will not be reclassified to profit & loss	(34)	7	6
Total comprehensive income	323	390	387

5 Associates and Joint Ventures Continued

Summarised financial information of the Group's associates and joint ventures is shown below.

	2020		
	ITC £m	Others £m	Total £m
Revenue	4,892	2,109	7,001
Profit on ordinary activities before taxation	1,930	70	2,000
Post-tax results of associates and joint ventures	1,495	54	1,549
Other comprehensive income	(450)	–	(450)
Total comprehensive income	1,045	54	1,099
	2019		
	ITC £m	Others £m	Total £m
Revenue	5,556	2,025	7,581
Profit on ordinary activities before taxation	2,322	57	2,379
Post-tax results of associates and joint ventures	1,646	40	1,686
Other comprehensive income	(365)	–	(365)
Total comprehensive income	1,281	40	1,321
	2018		
	ITC £m	Others £m	Total £m
Revenue	5,072	2,163	7,235
Profit on ordinary activities before taxation	2,059	61	2,120
Post-tax results of associates and joint ventures	1,373	45	1,418
Other comprehensive income	(110)	–	(110)
Total comprehensive income	1,263	45	1,308



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6 Taxation on Ordinary Activities

(a) Summary of taxation on ordinary activities

	2020 £m	2019 £m	2018 £m
UK corporation tax	38	8	60
Comprising:			
– current year tax expense	38	41	66
– adjustments in respect of prior periods	–	(33)	(6)
Overseas tax	2,387	2,047	2,455
Comprising:			
– current year tax expense	2,369	2,074	2,460
– adjustments in respect of prior periods	18	(27)	(5)
Total current tax	2,425	2,055	2,515
Deferred tax	(317)	8	(374)
Comprising:			
– deferred tax relating to origination and reversal of temporary differences	(184)	55	(304)
– deferred tax relating to changes in tax rates	(133)	(47)	(70)
	2,108	2,063	2,141

(b) Franked Investment Income Group Litigation Order

The Group is the principal test claimant in an action in the United Kingdom against HM Revenue and Customs (HMRC) in the Franked Investment Income Group Litigation Order (FII GLO). There are 23 corporate groups in the FII GLO. The case concerns the treatment for UK corporate tax purposes of profits earned overseas and distributed to the UK.

The original claim was filed in 2003. The trial of the claim was split broadly into issues of liability and quantification. The main liability issues were heard by the High Court, Court of Appeal and Supreme Court in the UK and the European Court of Justice in the period to November 2012. The detailed technical issues of the quantification mechanics of the claim were heard by the High Court during May and June 2014 and the judgment handed down on 18 December 2014. The High Court determined that in respect of issues concerning the calculation of unlawfully charged corporation tax and advance corporation tax, the law of restitution including the defence on change of position and questions concerning the calculation of overpaid interest, the approach of the Group was broadly preferred. The conclusion reached by the High Court would, if upheld, produce an estimated receivable of £1.2 billion for the Group. Appeals on a majority of the issues were made to the Court of Appeal, which heard the arguments in June 2016. The Court of Appeal determined in November 2016 on the majority of issues that the conclusion reached by the High Court should be upheld. The Supreme Court gave permission for a number of issues to be appealed in two separate hearings. The first, in February 2020, concerned the time limit for bringing claims. HMRC sought to challenge existing case law. In November 2020 the Supreme Court handed down its judgment. The Supreme Court agreed to partially overturn existing case law but introduced a new test for determining whether claims of this type are in time. The case has been remitted to the High Court to apply that new test to the facts. The second hearing was heard in December 2020 and concerned issues relating to the type of claims BAT is entitled to bring. Judgment following the second December hearing is expected in 2021. In July 2018, the Supreme Court handed down its judgment in the Prudential Assurance Company Ltd case, which is closely related to the FII GLO. Applying the Prudential judgment reduces the value of the FII claim to approximately £0.6 billion, mainly as the result of the application of simple interest.

During 2015, HMRC paid to the Group a gross amount of £1,224 million in two separate payments. The payments made by HMRC have been made without any admission of liability and are subject to refund were HMRC to succeed on appeal. The second payment in November 2015 followed the introduction of a new 45% tax on the interest component of restitution claims against HMRC. HMRC held back £261 million from the second payment contending that it represents the new 45% tax on that payment, leading to total cash received by the Group of £963 million. Actions challenging the legality of the withholding of the 45% tax have been lodged by the Group. The First Tier Tribunal found in favour of HMRC in July 2017 and the Group's appeal to the Upper Tribunal was heard in July 2018 and judgment has not yet been handed down.

The net £0.9 billion held by the Group is higher than the current value of the claim referred to above. Due to the uncertainty of the amounts and eventual outcome the Group has not recognised any impact in the Income Statement in the current or prior period. The receipt, net of the deduction by HMRC, is held as deferred income as disclosed in note 21. Any future recognition as income will be treated as an adjusting item, due to the size of the amount, with interest of £21 million for the 12 months to 31 December 2020 (2019: £28 million; 2018: £25 million) accruing on the balance, which was also treated as an adjusting item.

6 Taxation on Ordinary Activities Continued

(c) Factors affecting the taxation charge

The taxation charge differs from the standard 19% (2019: 19%; 2018: 19%) rate of corporation tax in the UK. The major causes of this difference are listed below:

	2020		2019		2018	
	£m	%	£m	%	£m	%
Profit before tax	8,672		7,912		8,351	
Less: share of post-tax results of associates and joint ventures (see note 5)	(455)		(498)		(419)	
	8,217		7,414		7,932	
Tax at 19% (2019 and 2018: 19%) on the above	1,561	19.0	1,409	19.0	1,507	19.0
Factors affecting the tax rate:						
Tax at standard rates other than UK corporation tax rate	368	4.5	353	4.8	384	4.8
Other national tax charges	142	1.7	147	2.0	204	2.6
Permanent differences	20	0.3	122	1.6	7	0.1
Overseas withholding taxes	155	1.9	106	1.4	155	1.9
Double taxation relief on UK profits	(22)	(0.3)	(29)	(0.4)	(35)	(0.4)
Unutilised/utilised tax losses	5	0.1	16	0.2	5	0.1
Adjustments in respect of prior periods	18	0.2	(60)	(0.8)	(11)	(0.1)
Deferred tax relating to changes in tax rates	(133)	(1.6)	(47)	(0.6)	(70)	(0.9)
Additional net deferred tax (credits)/charges	(6)	(0.1)	46	0.6	(5)	(0.1)
	2,108	25.7	2,063	27.8	2,141	27.0

(d) Adjusting items included in taxation

In 2020, adjusting items in taxation included a net credit of £35 million mainly relating to the release of a provision regarding the application of overseas withholding tax, the revaluation of deferred tax liabilities arising on trademarks recognised in the Reynolds American acquisition in 2017 due to changes in US state tax rates and the excise dispute in Russia (note 3(h)).

In 2019, adjusting items in taxation total a credit of £65 million relating primarily to changes in US state tax rates, relating to the revaluation of deferred tax liabilities arising on trademarks recognised in the Reynolds American acquisition in 2017.

In 2018, adjusting items in taxation relate to a £79 million credit due to changes in US state tax rates in the period, relating to the revaluation of deferred tax liabilities arising on trademarks recognised in the Reynolds American acquisition in 2017, and a £55 million charge related to retrospective guidance issued by a tax authority in the ENA region regarding the application of withholding tax (WHT) between 2015 and 2017.

(e) Tax on adjusting items

In addition, the tax on adjusting items, separated between the different categories, as per note 7, amounted to £287 million (2019: £373 million; 2018: £199 million). The adjustment to the adjusted earnings per share (note 7) also includes £8 million (2019: £17 million; 2018: £6 million) in respect of the non-controlling interests' share of the adjusting items net of tax.

(f) Tax on items recognised directly in other comprehensive income

	2020 £m	2019 £m	2018 £m
Current tax	(5)	(7)	(8)
Deferred tax	23	138	(7)
Credited/(charged) to other comprehensive income	18	131	(15)

The tax relating to each component of other comprehensive income is disclosed in note 18.



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7 Earnings Per Share

	2020			2019			2018		
	Earnings £m	Weighted average number of shares m	Earnings per share pence	Earnings £m	Weighted average number of shares m	Earnings per share pence	Earnings £m	Weighted average number of shares m	Earnings per share pence
Basic earnings per share (ordinary shares of 25p each)	6,400	2,286	280.0	5,704	2,284	249.7	6,032	2,285	264.0
Share options	–	9	(1.1)	–	7	(0.7)	–	7	(0.8)
Diluted earnings per share	6,400	2,295	278.9	5,704	2,291	249.0	6,032	2,292	263.2

Adjusted earnings per share calculation

Earnings have been affected by a number of adjusting items, which are described in notes 3 to 6. Adjusting items are significant items in the 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. The Group believes that these items are useful to users of the Group financial statements in helping them to understand the underlying business performance. To illustrate the impact of these items, an adjusted earnings per share calculation is shown below.

	Notes	2020		2019		Basic 2018	
		Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Basic earnings per share		6,400	280.0	5,704	249.7	6,032	264.0
Effect of restructuring and integration costs	3(e)	408	17.8	565	24.7	363	15.9
Tax and non-controlling interests on restructuring and integration costs		(64)	(2.8)	(101)	(4.4)	(83)	(3.6)
Effect of amortisation and impairment of goodwill, trademarks and similar intangibles	3(f),(h)	548	24.0	675	29.6	377	16.5
Tax and non-controlling interests on amortisation and impairment of goodwill, trademarks and similar intangibles		(77)	(3.4)	(115)	(5.0)	(78)	(3.4)
Effect of associates' adjusting items net of tax	5(a)	(13)	(0.6)	(25)	(1.1)	(32)	(1.4)
Effect of Quebec class action	3(h)	–	–	436	19.1	–	–
Tax on Quebec class action		–	–	(124)	(5.4)	–	–
Effect of Russia excise dispute	3(h)	(40)	(1.7)	202	8.9	–	–
Tax on Russia excise dispute	6(d)	14	0.6	(16)	(0.7)	–	–
Effect of hyperinflation on Venezuela retained earnings	3(h),4(b)	–	–	–	–	65	2.8
Other adjusting items	3(h)	487	21.2	236	10.3	184	8.0
Tax effect on other adjusting items		(104)	(4.5)	(50)	(2.2)	(44)	(1.9)
Deferred tax relating to changes in tax rates	6	(21)	(0.9)	(49)	(2.2)	(79)	(3.5)
Effect of early repurchase of bonds	4(b)	142	6.2	–	–	–	–
Tax effect of early repurchase of bonds		(32)	(1.4)	–	–	–	–
Effect of interest on FII GLO settlement and other	4(b)	11	0.5	80	3.5	41	1.8
Tax effect of interest on FII GLO settlement and other		(4)	(0.2)	–	–	–	–
Effect of retrospective guidance on WHT	6(d)	(42)	(1.8)	–	–	55.0	2.4
Adjusted earnings per share (basic)		7,613	333.0	7,418	324.8	6,801	297.6

7 Earnings Per Share Continued

	Notes	2020		2019		Diluted 2018	
		Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Diluted earnings per share		6,400	278.9	5,704	249.0	6,032	263.2
Effect of restructuring and integration costs	3(e)	408	17.7	565	24.7	363	15.8
Tax and non-controlling interests on restructuring and integration costs		(64)	(2.8)	(101)	(4.4)	(83)	(3.6)
Effect of amortisation and impairment of goodwill, trademarks and similar intangibles	3(f),(h)	548	23.9	675	29.5	377	16.4
Tax and non-controlling interests on amortisation and impairment of goodwill, trademarks and similar intangibles		(77)	(3.4)	(115)	(5.0)	(78)	(3.4)
Effect of associates' adjusting items net of tax	5(a)	(13)	(0.6)	(25)	(1.1)	(32)	(1.4)
Effect of Quebec class action	3(h)	–	–	436	19.0	–	–
Tax on Quebec class action		–	–	(124)	(5.4)	–	–
Effect of Russia excise dispute	3(h)	(40)	(1.7)	202	8.8	–	–
Tax on Russia excise dispute	6(d)	14	0.6	(16)	(0.7)	–	–
Effect of hyperinflation on Venezuela retained earnings	3(h),4(b)	–	–	–	–	65	2.8
Other adjusting items	3(h)	487	21.2	236	10.3	184	8.0
Tax effect on other adjusting items		(104)	(4.5)	(50)	(2.2)	(44)	(1.9)
Deferred tax relating to changes in tax rates	6	(21)	(0.9)	(49)	(2.2)	(79)	(3.4)
Effect of early repurchase of bonds	4(b)	142	6.2	–	–	–	–
Tax effect of early repurchase of bonds		(32)	(1.4)	–	–	–	–
Effect of interest on FII GLO settlement and other	4(b)	11	0.5	80	3.5	41	1.8
Tax effect of interest on FII GLO settlement and other		(4)	(0.2)	–	–	–	–
Effect of retrospective guidance on WHT	6(d)	(42)	(1.8)	–	–	55	2.4
Adjusted earnings per share (diluted)		7,613	331.7	7,418	323.8	6,801	296.7

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7 Earnings Per Share Continued

Headline earnings per share as required by the JSE Limited

The presentation of headline earnings per share, as an alternative measure of earnings per share, is mandated under the JSE Listing Requirements. It is calculated in accordance with Circular 1/2019 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

	2020		2019		Basic 2018	
	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Basic earnings per share	6,400	280.0	5,704	249.7	6,032	264.0
Effect of impairment of intangibles, property, plant and equipment and assets held-for-sale	465	20.3	518	22.7	238	10.3
Tax and non-controlling interests on impairment of intangibles and property, plant and equipment	(74)	(3.3)	(79)	(3.5)	(65)	(2.8)
Effect of (gains)/losses on disposal of property, plant and equipment, held-for-sale assets, partial/full termination of IFRS 16 leases, and sale and leaseback	(26)	(1.1)	7	0.3	(11)	(0.5)
Tax and non-controlling interests on disposal of property, plant and equipment, held-for-sale assets, partial/full termination of IFRS 16 leases, and sale and leaseback	8	0.3	(1)	–	4	0.2
Effect of gains on disposal of businesses, non-current investments and brands	–	–	–	–	(10)	(0.4)
Tax on gains on disposal of businesses, non-current investments and brands	–	–	–	–	2	0.1
Issue of shares and change in shareholding in associate	(17)	(0.7)	(25)	(1.1)	(22)	(1.0)
Headline earnings per share (basic)	6,756	295.5	6,124	268.1	6,168	269.9

	2020		2019		Diluted 2018	
	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence	Earnings £m	Earnings per share pence
Diluted earnings per share	6,400	278.9	5,704	249.0	6,032	263.2
Effect of impairment of intangibles, property, plant and equipment and assets held-for-sale	465	20.3	518	22.5	238	10.3
Tax and non-controlling interests on impairment of intangibles and property, plant and equipment	(74)	(3.3)	(79)	(3.4)	(65)	(2.8)
Effect of (gains)/losses on disposal of property, plant and equipment, held-for-sale assets, partial/full termination of IFRS 16 leases, and sale and leaseback	(26)	(1.1)	7	0.3	(11)	(0.5)
Tax and non-controlling interests on disposal of property, plant and equipment, held-for-sale assets, partial/full termination of IFRS 16 leases, and sale and leaseback	8	0.3	(1)	–	4	0.2
Effect of gains on disposal of businesses, non-current investments and brands	–	–	–	–	(10)	(0.4)
Tax on gains on disposal of businesses, non-current investments and brands	–	–	–	–	2	0.1
Issue of shares and change in shareholding in associate	(17)	(0.7)	(25)	(1.1)	(22)	(1.0)
Headline earnings per share (diluted)	6,756	294.4	6,124	267.3	6,168	269.1

8 Intangible Assets

(a) Overview of intangible assets

	2020				
	Goodwill £m	Computer software £m	Trademarks and similar intangibles £m	Assets in the course of development £m	Total £m
1 January					
Cost	44,316	1,207	75,726	115	121,364
Accumulated amortisation and impairment		(780)	(1,797)		(2,577)
Net book value at 1 January	44,316	427	73,929	115	118,787
Differences on exchange	(824)	(3)	(2,252)	–	(3,079)
Additions					
– internal development	–	–	–	142	142
– acquisitions (note 23)	36	–	39	–	75
– separately acquired	–	–	103	13	116
Reallocations	–	127	23	(150)	–
Amortisation charge	–	(121)	(338)	–	(459)
Impairment	(209)	(8)	(22)	–	(239)
31 December					
Cost	43,319	1,307	73,598	120	118,344
Accumulated amortisation and impairment		(885)	(2,116)		(3,001)
Net book value at 31 December	43,319	422	71,482	120	115,343

	2019				
	Goodwill £m	Computer software £m	Trademarks and similar intangibles £m	Assets in the course of development £m	Total £m
1 January					
Cost	46,163	1,101	78,736	125	126,125
Accumulated amortisation and impairment		(698)	(1,414)		(2,112)
Net book value at 1 January	46,163	403	77,322	125	124,013
Differences on exchange	(1,676)	(2)	(2,976)	–	(4,654)
Additions					
– internal development	–	–	–	148	148
– acquisitions (note 23)	23	–	54	–	77
– separately acquired	–	–	7	6	13
Reallocations	–	134	30	(164)	–
Amortisation charge	–	(105)	(361)	–	(466)
Impairment	(194)	(3)	(147)	–	(344)
31 December					
Cost	44,316	1,207	75,726	115	121,364
Accumulated amortisation and impairment		(780)	(1,797)		(2,577)
Net book value at 31 December	44,316	427	73,929	115	118,787

(b) Goodwill

Goodwill of £43,319 million (2019: £44,316 million) is included in intangible assets in the balance sheet of which the following are the significant acquisitions: Reynolds American £32,719 million (2019: £33,761 million); Rothmans Group £4,591 million (2019: £4,704 million); Imperial Tobacco Canada £2,304 million (2019: £2,335 million); ETI (Italy) £1,474 million (2019: £1,396 million) and ST (principally Scandinavia) £1,111 million (2019: £1,048 million). The principal allocations of goodwill in the Rothmans' acquisition are to the cash-generating units of Europe and South Africa, with the remainder mainly relating to operations in APME.

During 2020, the Group recognised a goodwill impairment charge of £209 million (2019: £194 million) as explained in note 8(e)(iv) below.

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Notes on Accounts Continued

8 Intangible Assets Continued

(c) Trademarks and similar intangibles

Trademarks and similar intangibles with indefinite lives

Included in the net book value of trademarks and similar intangibles are trademarks relating to the acquisition of Reynolds American with indefinite lives amounting to £68,839 million (2019: £71,032 million). These trademarks, including Newport, Camel, Natural American Spirit, Grizzly and Pall Mall, all of which are part of the Group's Strategic Portfolio of key brands, form the core focus of the US business and receive significant support in the form of dedicated internal resources, forecasting and, where appropriate, marketing investment. These trademarks have significant market share and positive cashflow growth expectations. There are no regulatory or contractual restrictions on the use of the trademarks, and there are no plans by management to significantly redirect resources elsewhere. Consequently, in the view of management, these trademarks do not have a foreseeable and definite end to their ability to generate future cash flows and hence are not amortised.

Trademarks and similar intangibles with definite lives

Included in the net book value of trademarks and similar intangibles are trademarks relating to the acquisition of Reynolds American £2,260 million (2019: £2,590 million). On 20 October 2020, the Group acquired the formulations, brands, associated know-how and other relevant assets owned by Dryft Sciences, LLC, relating to its white nicotine pouch products, these have been accounted as trademarks with a value of £103 million (see note 23).

In 2020, due to the migration to Vuse and difficult trading conditions in South Africa and the delisting of certain brands in Belize, the Group recognised an impairment charge of £18 million.

In 2019, as a result of declining volumes, the Group recognised a partial impairment of the Kodiak brand of £63 million. In addition, as a result of the regulatory uncertainty in the US vaping market, the Group did not submit Premarket Tobacco Applications (PMTA) for the vaping e-liquids purchased as part of the VapeWild acquisition (note 23). As a consequence, the Group recognised an impairment charge of £37 million in respect of the brands acquired as part of the acquisition. The Group withdrew the VapeWild products from the market in September 2020. Also, in 2019, the Group announced that it was simplifying its New Category product portfolio, with vapour products to be branded Vuse, modern oral products to be branded Velo and tobacco heating products continuing to be branded glo. As a result, the carrying values of trademarks and similar intangible assets acquired as part of the Chic, Must Have Limited and Quantus/Highendsmoke business combinations (see note 23), amounting to £29 million in total, have been fully impaired, as the acquired trademarks will no longer generate future economic benefits.

(d) Computer software and assets in the course of development

Included in computer software and assets in the course of development are internally developed assets with a carrying value of £513 million (2019: £516 million). The costs of internally developed assets include capitalised expenses of employees working full time on software development projects, third-party consultants, and software licence fees from third-party suppliers.

The Group has £6 million of future contractual commitments (2019: £4 million) related to intangible assets.

(e) Impairment testing

(i) Estimation uncertainty

As described in note 1, the critical accounting estimates used in the preparation of the consolidated financial statements include the review of asset values, especially indefinite life assets such as goodwill and certain trademarks and similar intangibles.

There is significant judgement with regard to assumptions and estimates involved in the forecasting of future cash flows, which form the basis of the assessment of the recoverability of these assets, with the effect that the value-in-use of calculations incorporate estimation uncertainty, particularly for certain assets held in relation to the Canada, US, Malaysia, Peru and South Africa markets and the Global Travel Retail (GTR) business.

(ii) Impairment testing – Trademarks and similar intangibles with indefinite lives (brands)

The trademarks and similar intangibles have been tested for impairment in line with the following methodology. The recoverable amounts of trademarks and similar intangibles with indefinite lives have been determined on a value-in-use basis. The value-in-use calculations use cash flows based on detailed brand budgets prepared by management using projected sales volumes, revenues and projected brand profitability covering a five-year horizon and, thereafter, grown into perpetuity. Corporate costs are allocated to the brand budgets based on either specific allocations, where appropriate, or based on volumes. The pre-tax discount rates, ranging between 8.29% and 9.01%, and long-term growth rates of 1%, applied to the brand value-in-use calculations have been determined by local management based on experience, specific market and brand trends and pricing and cost expectations. Following the application of a reasonable range of sensitivities, there was no indication of impairment.

Refer to note 8(e)(v) for further information on the Newport brand impairment testing. As the trademarks and similar intangibles with indefinite lives relate to the acquisition of Reynolds American, the brand budgets used in the value-in-use calculations have been incorporated into the budget information used in the impairment testing of the Reynolds American goodwill.



8 Intangible Assets Continued

(iii) Cash-generating units and information on goodwill impairment testing

In 2020, goodwill was allocated for impairment testing purposes to 19 (2019: 21) individual cash-generating units – one in the United States (2019: two), six in APME (2019: five), seven in AMSSA (2019: seven) and five in ENA (2019: seven).

Due to initiatives to simplify the business and improve the effectiveness and the efficiency of the Group as a globally integrated enterprise, £555 million of goodwill arising from the Rothmans acquisition allocated to the UK Exports cash-generating unit has been transferred to the Europe cash-generating unit and a portion of goodwill amounting to £235 million has been transferred from the Singapore cash-generating unit to a newly created Global Travel and Retail (GTR) cash-generating unit. The effective date for both transfers was 1 January 2020. The transfer of the UK Exports cash-generating unit and the 2019 impairment of goodwill arising from the Quantus/Highendsmoke acquisition (refer to note 8(e)(iv)) resulted in the ENA cash-generating units reducing to five. The number of cash-generating units in APME increased to six with the addition of the newly created GTR and Eastern Tobacco (note 23(a)) cash-generating units and the removal of Indonesia as a cash-generating unit due to the 2019 impairment (note 8(e)(iv)). In addition, the cash-generating units in the United States have reduced by one as a result of the impairment of goodwill in VapeWild (note 8(e)(iv)).

	2020		2019	
	Carrying amount £m	Pre-tax discount rate %	Carrying amount £m	Pre-tax discount rate %
Cash-generating unit				
Reynolds American	32,719	7.6	33,761	7.3
Canada	2,304	19.1	2,335	19.1
Europe	5,639	6.2	4,809	6.2
South Africa	552	11.5	598	9.3
Australia	756	7.9	711	6.7
Singapore	356	9.6	599	6.4
Malaysia	232	10.3	435	7.5
Other	761	7.4	1,068	6.8
Total	43,319		44,316	

Included within 'Other' above is goodwill arising on various acquisitions that have been allocated to multiple cash-generating units which are insignificant. The pre-tax discount rate represents the weighted average pre-tax discount rate.

The recoverable amounts of all cash-generating units have been determined on a value-in-use basis. The key assumptions for the recoverable amounts of all units are the budgeted volumes, revenues, operating margins and long-term growth rates, which directly impact the cash flows, and the discount rates used in the calculation. The long-term growth rate is used purely for the impairment testing of goodwill under IAS 36 *Impairment of Assets* and does not reflect long-term planning assumptions used by the Group for investment proposals or for any other assessments.

Pre-tax discount rates, as shown above, were used in the impairment testing, based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made. These adjustments are derived from external sources and are based on the spread between bonds (or credit default swaps, or similar indicators) issued by the US or comparable governments and by the relevant local government, adjusted for the Group's own credit market risk. For ease of use and consistency in application, these results are periodically calibrated into bands based on internationally recognised credit ratings. The long-term growth rates and discount rates have been applied to the budgeted cash flows of each cash-generating unit. These cash flows have been determined by local management based on experience, specific market and brand trends as well as pricing and cost expectations. These have been endorsed by Group management as part of the consolidated Group's budget.

(iv) Impairment testing – Goodwill (excluding Reynolds American and Canada)

The value-in-use calculations use cash flows based on detailed financial budgets prepared by management covering a one-year period extrapolated over a 10-year horizon with growth of 3% (2019: 4%) in years 2 to 10, including 1% inflation (2019: 2% inflation), after which a total growth rate of 1% (2019: 2%) has been assumed as the long-term volume decline is more than offset by pricing to drive revenue growth. A 10-year horizon is considered appropriate based on the Group's history of profit and cash growth, its well-balanced portfolio of brands and the industry in which it operates. For recent acquisitions and start-up ventures the detailed financial budget is expanded to reflect the medium-term plan of the country or market management spanning five years or beyond.



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Notes on Accounts Continued

8 Intangible Assets Continued

As a result of difficult trading conditions, the above assumptions were amended to reflect the short to medium-term plans of the country or area management spanning up to a period of five years for the South Africa, GTR, Peru and Malaysia cash-generating units.

In South Africa, where there was a five-month sales ban, the forecast cash flows were reduced to reflect the recovery after the ban was lifted and the growth rate was reduced from 1% to -1%. Following the application of a reasonable range of sensitivities, there was no indication of impairment. For the South Africa cash-generating unit headroom to reduce to £nil, the forecast cash flows would need to reduce by a further 20% in each forecast year or the pre-tax discount rate would need to increase by 4%. Management believe that the post-ban recovery will continue in South Africa and therefore both scenarios are not considered by management, at this stage, to be reasonably possible.

For GTR, due to difficult trading conditions as a consequence of the COVID-19 pandemic, the growth rate was reduced from 1% to 0%. Following the application of a reasonable range of sensitivities, there was no indication of impairment. For the GTR cash-generating unit headroom to reduce to £nil, the forecast cash flows would need to reduce by a further 44% in each forecast year or the pre-tax discount rate would need to increase by 5.1%. Management believes that the duty free business will recover and therefore both scenarios are not considered, at this stage, to be reasonably possible.

In Peru, due to difficult trading conditions as a consequence of the COVID-19 pandemic, the growth rate was reduced from 1% to 0%. As a result, the Peru cash-generating unit is sensitive to reasonable possible changes in assumptions as outlined in the table below.

As a result of the merger with Rothmans in 1999, the Group recognised goodwill attributable to the business in Malaysia, measured at MYR2,357 million (approximately £429 million) under IFRS. Difficult trading conditions, including high incidence of illicit trade and downtrading, are now expected to negatively impact forecast operating cash flows and have resulted in the Group recognising an impairment charge of £197 million in 2020. This partial impairment reduces the carrying value of goodwill to £232 million.

In addition, during the year, the Group has impaired in full the goodwill arising from the acquisitions of Twisp in South Africa and Blue Nile in Sudan due to difficult trading conditions in these markets. This has resulted in the recognition of impairment charges of £11 million and £1 million, respectively.

The table below shows the headroom and the impairment charge that would be recognised if the assumptions used in the value-in-use calculation were changed:

	Carrying amount of CGU £m	Headroom £m	Increase in discount rate ^{1,2} £m	Decrease in cash flows ^{1,2} £m	1% increase in terminal decline £m
Impairment charge					
Cash-generating unit					
Malaysia ¹	278	–	(28)	(28)	(20)
Peru ²	185	12	(15)	(28)	(15)

Notes:

1. Malaysia: reasonably possible changes in key assumptions that would result in additional impairment would be a 1.4% increase in the pre-tax discount rate, a 10% decrease each year in forecast cash flows or a 1% increase in terminal decline.
2. Peru: reasonably possible changes in key assumptions that would result in impairment would be a 1.4% increase in the pre-tax discount rate, a 20% decrease in forecast cash flows reflecting a permanent loss in volumes arising from the COVID-19 pandemic or a 1% increase in terminal decline.

With the exception of the Malaysia and Peru cash-generating units, following the application of a reasonable range of sensitivities to all the cash-generating units, and after reflecting the impairments above, there was no indication of any further impairment.

In 2009, the Group acquired Bentoel and the goodwill arising from this acquisition was assigned to the Indonesia cash-generating unit. During 2019, the Indonesian government announced a significant increase in excise effective 1 January 2020. The recoverable amount of the Indonesia cash-generating unit had been determined on a value-in-use basis using a 10-year forecast with cash flows after year 10 extrapolated as described above. The 10-year forecast had been prepared to take into account the expected decline in revenue and the impact this would have on net revenue, operating profit and cash flows. The extent of the significant increase in excise was such that the forecast cash flows did not support the carrying value of goodwill and therefore the goodwill of £172 million was fully impaired in 2019. The other assets held by the Indonesian cash-generating unit were assessed for impairment and based on the recoverable amounts, no impairment charges were recognised at that time. However, as explained in note 3(e), in 2020, a £69 million impairment has been recognised in respect of machinery held by the Indonesian business.

As explained in note 8(c) above, in addition to the impairment of trademarks and similar intangibles, in 2019 the goodwill associated with the acquisitions of VapeWild and Quantus/Highendsmoke (note 23) was fully impaired amounting to £12 million and £10 million, respectively.

8 Intangible Assets Continued

(v) Impairment testing – Reynolds American

Goodwill relating to Reynolds American and the Newport trademark

On 15 November 2018, the US Food and Drug Administration (FDA) announced an intention to ban flavoured vaping products and menthol cigarettes. Management recognise that the FDA announcement in 2018 does not itself constitute a ban on menthol in cigarettes, and any proposed regulation of menthol in cigarettes would need to be introduced through the established US comprehensive rule-making process, the timetable and outcome for which was, and remains, uncertain. In addition, it is unclear how any such potential US regulation might affect the manufacture and marketing of Group combustible brands containing menthol.

During 2020, the FDA issued the Unified Agenda that did not progress the potential regulations with regards to menthol in tobacco products or restrictions on nicotine in tobacco products. The Group continues to monitor the regulatory developments but does not believe there is any significant impact of such restrictions on the Group's operations at this time. The Group has a long-standing track record of managing regulatory shifts and in the event of regulatory change the Group remains confident in its ability to navigate that environment successfully.

Since 2018, having considered the combination of the risk of implementation and impact of any change in regulations, the Group has not recognised any impairment on either the Newport brand or the Reynolds American goodwill, as management concluded that there would not be a significant impact to the value-in-use. The base case scenario used in the impairment model therefore does not include any potential impact of changes in regulation in relation to menthol flavourings in combustibles.

The carrying amounts for Reynolds American goodwill and Newport were £32,719 million and £29,248 million, respectively (2019: £33,761 million and £30,179 million). The value-in-use calculations for brands, as described in note 8(e)(ii) above, have been incorporated in the base case scenario used in the Reynolds American goodwill model. The value-in-use calculations have been prepared based on a five-year cash flow forecast which assumes long-term volume decline of cigarettes. This decline is more than offset by pricing. After this forecast, a growth rate of 1% has been assumed for Reynolds American goodwill and 1% for Newport and a pre-tax discount rate of 7.6% (2019: 7.3%) and 8.3% (2019: 8.6%), respectively.

The excess of value-in-use earnings over the carrying values (headroom) of the Reynolds American goodwill and the Newport brand would be reduced to nil if the following individual changes, none of which are considered reasonably possible by management, were made to the key assumptions used in the impairment model.

	Reynolds American goodwill %	Newport %
Assumptions		
Decrease in revenue by	5.6	16.2
Increase in pre-tax discount rate by	1.1	2.4

For Reynolds American goodwill, the change in revenue assumption is based on combustibles revenue in the five-year forecast reducing by 5.6% in each year and assumes that other assumptions are not changed. Due to the increased risk of uncertainty around the long-term implications of the COVID-19 pandemic several cash flow forecasts were prepared. The Group, for the purposes of preparing the impairment analysis, used conservative pricing assumptions and reduced the terminal value growth rate from 2% in 2019 to 1%. Such assumptions have been used for the purposes of impairment analysis only and do not reflect management's assessment of the potential performance of the Reynolds American cash-generating unit, which is expected to substantially exceed such assumptions. However, by using these conservative assumptions (including the reduction in terminal value growth compared to 2019), revenue would have to underperform the Group's impairment model by 5.6% per annum (2019: 13.4%). This is not deemed by management, due to the pricing potential, to be a reasonably possible scenario.

For Newport, the change in revenue assumption is based on the Newport revenue in the five-year forecast reducing by 16.2% in each year and assumes that other assumptions are not changed.

(vi) Impairment testing – Canada

Goodwill relating to Imperial Tobacco Canada Ltd (ITCAN)

In March 2019, ITCAN obtained an Initial Order from the Ontario Superior Court of Justice granting it protection under the Companies' Creditors Arrangement Act (CCAA). If the CCAA bankruptcy protection were to end, significant liabilities might crystallise. As a consequence, to reflect the risk to future operating cash flows, the value-in-use calculations have been prepared based on a five-year cash flow forecast, after which a growth rate of -2.3% and a pre-tax discount rate of 19.1% (2019: 19.1%) have been assumed. Further information on the Quebec Class Actions and CCAA can be found in note 27.

In addition to the increase in discount rate, a reasonable range of sensitivities was applied to the value-in-use calculation and there was no indication of impairment.

The excess of value-in-use earnings over the carrying values (headroom) of the ITCAN goodwill would be reduced to nil if the following individual changes, none of which are considered reasonably possible by management, were made to the key assumptions used in the impairment model. The change in revenue assumption is based on combustibles revenue in the five-year forecast reducing by 20.5% in each year and assumes that other assumptions are not changed.



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8 Intangible Assets Continued

Canada
goodwill
%**Assumptions**

Decrease in revenue by	20.5
Increase in pre-tax discount rate by	10.1

The £2,304 million of goodwill relating to ITCAN on the Group's balance sheet at 31 December 2020 will continue to be reviewed on a regular basis. Any future impairment charge would result in a non-cash charge to the income statement that will be treated as an adjusting item.

9 Property, Plant and Equipment**(a) Overview of property, plant and equipment, including right-of-use assets**

	2020					
	Freehold property £m	Leasehold property £m	Plant, equipment and other owned £m	Plant, equipment and other leased £m	Assets in the course of construction £m	Total £m
1 January						
Cost	1,503	785	5,795	215	921	9,219
Accumulated depreciation and impairment	(427)	(229)	(2,974)	(71)	–	(3,701)
Net book value at 1 January	1,076	556	2,821	144	921	5,518
Differences on exchange	(38)	(25)	(150)	(4)	(55)	(272)
Additions						
– right-of-use assets	–	67	–	36		103
– separately acquired	2	–	40	–	459	501
– acquisition of subsidiaries (note 23)	–	1	–	–	–	1
Reallocations	84	14	427	–	(525)	–
Depreciation	(38)	(118)	(313)	(62)	–	(531)
Impairment	(5)	(1)	(184)	–	(36)	(226)
Right-of-use assets – reassessments, modifications and terminations	–	(11)	–	(7)	–	(18)
Disposals	(7)	–	(9)	–	–	(16)
Net reclassifications as held-for-sale	–	–	–	–	–	–
31 December						
Cost	1,518	798	5,807	217	764	9,104
Accumulated depreciation and impairment	(444)	(315)	(3,175)	(110)	–	(4,044)
Net book value at 31 December	1,074	483	2,632	107	764	5,060

9 Property, Plant and Equipment Continued

	2019					
	Freehold property £m	Leasehold property £m	Plant, equipment and other owned £m	Plant, equipment and other leased £m	Assets in the course of construction £m	Total £m
31 December						
Cost	1,515	268	5,730	33	1,108	8,654
Accumulated depreciation and impairment	(411)	(129)	(2,931)	(17)		(3,488)
Net book value at 31 December	1,104	139	2,799	16	1,108	5,166
Accounting policy change (IFRS 16) (note 30)		470		140		610
Net book value at 1 January	1,104	609	2,799	156	1,108	5,776
Differences on exchange	(56)	(30)	(136)	(9)	(51)	(282)
Additions						
– right-of-use assets	–	85	–	77		162
– separately acquired	3	1	46	–	566	616
– acquisition of subsidiaries (note 23)	–	4	2	–	–	6
Reallocations	73	12	610	–	(695)	–
Depreciation	(37)	(114)	(308)	(62)		(521)
Impairment	(6)	(2)	(159)	–	(7)	(174)
Right-of-use assets – reassessments, modifications and terminations	–	(9)	–	(18)		(27)
Disposals	(5)	–	(27)	–		(32)
Net reclassifications as held-for-sale	–	–	(6)	–		(6)
31 December						
Cost	1,503	785	5,795	215	921	9,219
Accumulated depreciation and impairment	(427)	(229)	(2,974)	(71)	–	(3,701)
Net book value at 31 December	1,076	556	2,821	144	921	5,518

Refer to notes 3(b) and 3(e) for more information on property, plant and equipment impairments.

As of 31 December 2020, the Group owns freehold property amounting to £1,074 million (2019: £1,076 million), representing factories, warehouses and office buildings together with adjoining land, mainly in the US, UK, Bangladesh, Indonesia and South Korea.

Upon adoption of IFRS 16 Leases prospectively from 1 January 2019, the right-of-use assets related to leased properties have been included in the asset class 'Leasehold Property' and other right-of-use assets have been reported under 'Plant, equipment and other leased'. A further breakdown of leasehold property is given in note 9(c).



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9 Property, Plant and Equipment Continued

	2020 £m	2019 £m
Cost of freehold land within freehold property on which no depreciation is provided	251	261
Contracts placed for future expenditure	110	133

(b) Right-of-use assets

The Group leases various offices, warehouses, retail spaces, equipment and vehicles through its subsidiaries across the globe. Arrangements are entered into in the course of ordinary business, and lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions reflecting local commercial practice. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets representing 'leasehold property' relate to leases in respect of offices, retail space, warehouses and manufacturing facilities occupied by Group subsidiaries and include property leases with lease terms of more than five years in Japan, Brazil, Germany, Romania and Poland, amongst other countries. In addition, capitalised expenditure representing leasehold improvements is included in this category.

Assets representing 'plant, equipment and other' relate to leases of various assets including tobacco vending machines, industrial equipment and distribution vehicles in Japan, Russia, Romania, Brazil and other countries.

(c) Leasehold property

As of 31 December 2020, the Group holds £132 million (2019: £135 million) of leasehold properties acquired and another £351 million (2019: £421 million) of right-of-use leased properties.

	2020 £m	2019 £m
Leasehold land and property comprises		
– net book value of long leasehold	17	83
– net book value of short leasehold	466	473
	483	556

Leasehold property net book value movements for the year ended 31 December 2020					2020
	Net book value at 1 January £m	Differences on exchange £m	Depreciation and impairment £m	Other net movements* £m	Net book value at 31 December £m
– Property acquired (IAS16)	135	(6)	(11)	14	132
– Right-of-use properties (IFRS16)	421	(19)	(108)	57	351
	556	(25)	(119)	71	483

Leasehold property net book value movements for the year ended 31 December 2019					2019	
	Net book value at 1 January £m	Accounting policy changes IFRS16 £m	Differences on exchange £m	Depreciation and impairment £m	Other net movements* £m	Net book value at 31 December £m
– Property acquired (IAS16)	139	–	(7)	(10)	13	135
– Right-of-use properties (IFRS16)	–	470	(23)	(106)	80	421
	139	470	(30)	(116)	93	556

* Property acquired (IAS 16) other net movements represent additions (directly acquired and/or transferred from assets in the course of construction) net of disposals, whereas the right-of-use properties (IFRS 16) other net movements relates to new leases net of reassessments, modifications and terminations as reported in the Property, plant and equipment movement table in note 9(a). Other net movements also includes £1 million (2019: £4 million) in relation to acquired companies.

10 Investments in Associates and Joint Ventures

	2020 £m	2019 £m
1 January	1,860	1,737
Total comprehensive income (note 5)	323	390
Dividends	(394)	(239)
Additions (note 23)	5	8
Other equity movements	2	(36)
31 December	1,796	1,860
Non-current assets	1,021	1,237
Current assets	1,155	1,085
Non-current liabilities	(61)	(74)
Current liabilities	(319)	(388)
	1,796	1,860
ITC Ltd. (Group's share of the market value is £7,574 million (2019: £9,099 million))	1,724	1,794
Other listed associates (Group's share of the market value is £184 million (2019: £221 million))	26	22
Unlisted associates	46	44
	1,796	1,860

The Group's investment in Tisak d.d. (Tisak) was acquired as part of the TDR transaction (note 23). During 2016, the Group entered into an agreement with Tisak's parent Agrokor d.d. (Agrokor) to convert certain outstanding trading balances into long-term loans and an additional shareholding in Tisak. As part of the agreement, Agrokor had the right to reacquire the additional shareholding in Tisak. As a consequence of this, while the Group had legal ownership of the additional shareholding, it did not consider that the shares provided any additional equity interest and continued to account for 26% of the equity of Tisak. In 2017, due to the financial difficulties of Agrokor and Tisak, the Group fully impaired this investment resulting in a charge of £27 million to the income statement in that year that was reported as an adjusting item. In July 2018, Agrokor's creditors approved a settlement plan proposed by Agrokor's administrators. The settlement plan has not returned any value to the Group and Tisak is expected to be liquidated in 2021.

The principal associate undertaking of the Group is ITC Ltd. (ITC). Included within the dividends amount of £394 million (2019: £239 million) are £386 million (2019: £231 million) attributable to dividends declared by ITC.

ITC Ltd.

ITC is an Indian conglomerate based in Kolkata and maintains a presence in cigarettes, hotels, paper and packaging, agri-business and other fast-moving goods (e.g. confectionery, branded apparel, personal care, stationery and safety matches). BAT's interest in ITC is 29.42%.

ITC prepares accounts on a quarterly basis with a 31 March year-end. As permitted by IAS 28, results up to 30 September 2020 have been used in applying the equity method. This is driven by the availability of information at the half-year, to be consistent with the treatment in the Group's interim accounts. Any further information available after the date used for reporting purposes is reviewed and any material items adjusted for in the final results. The latest published information available is at 31 December 2020.

	2020 £m	2019 £m
Non-current assets	3,399	4,124
Current assets	3,513	3,234
Non-current liabilities	(194)	(237)
Current liabilities	(858)	(1,031)
	5,860	6,090
Group's share of ITC Ltd. (2020: 29.42%; 2019: 29.46%)	1,724	1,794

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11 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 principal schemes are in the US, UK, Germany, Canada, Netherlands and Switzerland. Together, schemes in these territories account for around 95% of the total underlying obligations of the Group's defined benefit pension arrangements. These obligations consist mainly of final salary pension schemes which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In addition, the Group operates several healthcare benefits schemes, of which the most significant are in the US and Canada. The liabilities in respect of healthcare benefits are also assessed by qualified independent actuaries, applying the projected unit credit method.

All of these arrangements, including funded schemes where formal trusts or equivalents are required, have been developed and are operated in accordance with local practices and regulations where applicable in the countries concerned. For example, in the US, the main funded pension plans are the *Reynolds American Retirement Plan* ('PEP') and the *Retirement Income Plan for Certain RAI Affiliates* ('Affiliates'), and the only funded healthcare scheme is the *Brown & Williamson Tobacco Corporation Welfare & Fringe Benefit Plan*, all of which are established with corporate trustees that are required to run the plans in accordance with the plan's rules and to comply with all relevant legislation, including the Employee Retirement Income Security Act of 1974. Similarly, in the UK, the main pension arrangement is the *British American Tobacco UK Pension Fund* (UK Fund), which is established under trust law and has a corporate trustee that is required to run the scheme in accordance with the Fund's Trust Deed and Rules and to comply with the Pension Scheme Act 1993, Pensions Act 1995, Pensions Act 2004 and all other relevant legislation. With effect from 1 July 2020, the UK Fund was closed to further accrual of benefits with all active members becoming deferred members of the fund. No incentives or compensation was provided to affected employees. A past service credit was recognised on the difference between the salary increase assumption for active members and the inflation assumption for deferred members at the date of the plan amendment and curtailment of benefits.

Responsibility for the governance of the schemes across the Group, including investment decisions and contribution schedules, generally lies with the trustees. The trustees for each arrangement will usually consist of representatives appointed by both the sponsoring company and the beneficiaries. In the US, the corporate trustees act as custodians with a committee of local management acting in a fiduciary capacity with regard to investment decisions, risk mitigation and administration of the arrangements.

The majority of schemes are subject to local regulations regarding funding requirements. Contributions to defined benefit schemes are determined after consultation with the respective trustees and actuaries of the individual externally funded schemes, and after taking into account regulatory requirements in each territory. The Group's contributions to funded retirement benefit schemes in 2021 in total are expected to be £81 million compared to £103 million in 2020.

Contributions to the various funded plans in the US are agreed with the named fiduciary, scheme actuaries and the committee of local management after taking account of statutory requirements including the Pension Protection Act of 2006, as amended. Through its US subsidiaries, the Group may make significant contributions, either as required by statutory requirements or at the discretion of the Group, with the aim of maintaining a funding status of at least 90% and becoming fully funded long-term. During 2020, the Group did not contribute to its funded pension and post-retirement plans in the US and does not expect to do so in 2021. By the end of 2020, the PEP and Affiliates plans referred to above were each reporting a surplus under IAS 19 (£113 million and £119 million, respectively). Under the rules of these plans, any surplus would be returnable to the Group in the event of a termination or could otherwise be repurposed for other existing or replacement benefit plans and accordingly no surplus restrictions have been recognised.

With effect from July 2018, contributions to the UK Fund, as agreed with the Trustee to meet the cost of future benefit accrual, were £18 million per annum. Additional annual contributions to cover funding shortfalls were payable as required until the Fund was valued to 110% on a Technical Provisions basis. These were £12 million in 2020, and £12 million in each of 2019 and 2018. Total contributions payable to the UK Fund were secured by a charge over the Group's Head Office (Globe House) up to a maximum of £150 million. Following the completion of the 2020 triennial valuation noted below, the Trustee agreed to release the charge over Globe House. The UK Fund closed to future accrual for current employees with effect from 1 July 2020. Consequently, the Trustee and the Group agreed to reduce the 2020 contribution payment for future service from £18 million to £9 million to reflect this. An interim Schedule of Contributions dated 15 July 2020 was put in place in order to give effect to this until the formal valuation of the Fund had been completed.

The formal triennial actuarial valuation of the Fund was carried out with an effective date of 31 March 2020. This showed that the Fund had a surplus of £139 million on a Technical Provisions basis, in accordance with the statutory funding objective. The Trustee also has a Long-Term Funding Target to be fully funded on a Solvency Liabilities basis by 2026, and on this basis the Fund had a surplus of £7 million at the valuation date. The Trustee and the Group agreed a new Schedule of Contributions with an effective date of 5 October 2020 such that the Group will pay £12 million per annum from July 2021 until July 2023. Under the rules of the scheme, any future surplus would be returnable to the Group by refund at the end of the life of the scheme. The funding commitment is therefore not considered onerous, and in accordance with IFRIC 14 no additional liabilities or surplus restrictions have been recognised in respect of these commitments.

Payments made to pensioners by the operating companies in Germany, net of income on scheme assets, are deemed to be company contributions to the Contractual Trust Arrangements and are anticipated to be around £33 million in 2021 and the same amount for the four years after that. Contributions to pension schemes in Canada, Netherlands and Switzerland in total are anticipated to be around £20 million in 2021 and then around £10 million per annum for the four years after that.



11 Retirement Benefit Schemes Continued

The majority of benefit payments are from trustee administered funds, however, there are also a number of unfunded schemes where the sponsoring company meets the benefit payment obligation as it falls due, including UK based Defined Benefit and Defined Contribution Unapproved Unfunded Retirement Benefit Schemes (DB UURBS and DC UURBS respectively). The DC UURBS credits accrued in the year are increased in line with the Company's Weighted Average Cost of Debt and the scheme is therefore treated as a defined benefit scheme under IAS 19. For unfunded schemes in the US, UK and Canada, 39% of the liabilities reported at year-end are expected to be settled by the Group within 10 years, 28% between 10 and 20 years, 18% between 20 and 30 years, and 15% thereafter.

The funded arrangements in the Group have policies on investment management, including strategies over a preferred long-term investment profile, and schemes in certain territories including Canada and Netherlands manage their bond portfolios to match the weighted average duration of scheme liabilities.

For funded plans in the US, the Group employs a risk mitigation strategy which seeks to balance pension plan returns with a reasonable level of funded status volatility. Based on this framework, the asset allocation has two primary components. The first component is the hedging portfolio, which uses extended duration fixed income holdings (typically US Government and investment grade corporate bonds) and, to a lesser extent, derivatives to match a portion of the interest rate risk associated with the benefit obligations, thereby reducing expected funded status volatility. The second component is the return-seeking portfolio, which is designed to enhance portfolio returns. The return-seeking portfolio is broadly diversified across asset classes.

On 31 May 2019, the Trustee of the UK Fund entered into an agreement with Pension Insurance Corporation plc (PIC) to acquire an insurance policy that operates as a UK Fund investment asset, with the intent of matching a specific part of the UK Fund's future cash flow arising from the accrued pension liabilities of retired and deferred members. Such an arrangement, commonly referred to as a 'buy-in', has reduced the UK Fund's value at risk in relation to key risks associated with improved longevity, inflation and interest rate movements while improving the security to the UK Fund and its members. On an IAS 19 basis, the fair value of the insurance policy matches the present value of the liabilities being insured. On completion of the transaction, a loss of £691 million was recognised through the statement of other comprehensive income on the revaluation of the insurance asset.

For the residual assets in the UK Fund, the current allocation is broadly split as 75% in risk reducing assets and 25% in return seeking assets. The return seeking portfolio is invested in illiquid assets which, in the normal course of events, will wind down naturally over time, with their value being realised as the investments mature. This is consistent with the Trustee's ultimate target which is to be 100% invested in risk reducing assets or matching assets. Given the strong funding position of the UK Fund as shown in the 31 March 2020 Actuarial valuation, the Trustee will continue to review the investment strategy and may look to increase the proportion of risk-reducing or matching assets, commensurate with their ultimate target to further reduce the UK Fund's exposure to the key risk above.

Through its defined benefit pension schemes and healthcare benefit schemes, the Group is exposed to a number of risks, including:

Asset volatility:

The plan liabilities are calculated using discount rates set by reference to bond yields. If plan assets underperform this yield, e.g. due to stock market volatility, this will create a deficit. However, most schemes hold a proportion of assets which are expected to outperform bonds in the long term, and the majority of schemes by value are subject to local regulation regarding funding deficits.

Changes in bond yields:

A decrease in corporate bond yields will increase scheme liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings or other hedging instruments.

Inflation risk:

Some of the Group's pension obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases, caps on the level of inflationary increases are in place in the scheme rules, while some assets and derivatives provide specific inflation protection.

Life expectancy:

The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities. Assumptions regarding mortality and mortality improvements are regularly reviewed in line with actuarial tables and scheme specific experience.



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11 Retirement Benefit Schemes Continued

The amounts recognised in the balance sheet are determined as follows:

	Pension schemes		Healthcare schemes		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Present value of funded scheme liabilities	(11,970)	(11,454)	(253)	(272)	(12,223)	(11,726)
Fair value of funded scheme assets	12,403	11,682	173	178	12,576	11,860
	433	228	(80)	(94)	353	134
Unrecognised funded scheme surpluses	(16)	(28)	–	–	(16)	(28)
	417	200	(80)	(94)	337	106
Present value of unfunded scheme liabilities	(602)	(578)	(545)	(557)	(1,147)	(1,135)
	(185)	(378)	(625)	(651)	(810)	(1,029)
The above net (liability)/asset is recognised in the balance sheet as follows:						
– retirement benefit scheme liabilities	(897)	(807)	(627)	(652)	(1,524)	(1,459)
– retirement benefit scheme assets	712	429	2	1	714	430
	(185)	(378)	(625)	(651)	(810)	(1,029)

The net liabilities of funded pension schemes by territory are as follows:

	Liabilities		Assets		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
– US	(5,012)	(4,945)	5,144	4,818	132	(127)
– UK	(3,485)	(3,214)	3,866	3,533	381	319
– Germany	(1,035)	(958)	918	928	(117)	(30)
– Canada	(756)	(738)	758	747	2	9
– Netherlands	(873)	(778)	893	814	20	36
– Switzerland	(348)	(333)	312	294	(36)	(39)
– Rest of Group	(461)	(488)	512	548	51	60
Funded schemes	(11,970)	(11,454)	12,403	11,682	433	228

Of the Group's unfunded pension schemes 54% (2019: 50%) relate to arrangements in the UK and 32% (2019: 32%) relate to arrangements in the US, while 85% (2019: 86%) of the Group's unfunded healthcare arrangements relate to arrangements in the US.

The amounts recognised in the income statement are as follows:

	Pension schemes		Healthcare schemes		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Defined benefit schemes						
Service cost						
– current service cost	72	92	2	2	74	94
– past service (credit)/cost, curtailments and settlements	(12)	7	–	–	(12)	7
Net interest on the net defined benefit liability						
– interest on scheme liabilities	300	391	27	34	327	425
– interest on scheme assets	(289)	(388)	(7)	(8)	(296)	(396)
– interest on unrecognised funded scheme surpluses	1	–	–	–	1	–
	72	102	22	28	94	130
Defined contribution schemes	88	97	–	–	88	97
Total amount recognised in the income statement (note 3(a))	160	199	22	28	182	227

The above charges are recognised within employee benefit costs in note 3(a) and include a charge of £10 million in 2020 (2019: £16 million) in respect of settlements, past service costs and defined contribution costs reported as part of the restructuring costs charged in arriving at profit from operations (note 3(e)). Included in current service cost in 2020 is £16 million (2019: £21 million) of administration costs. Current service cost is stated after netting employee contributions, where applicable.

11 Retirement Benefit Schemes Continued

The movements in scheme liabilities are as follows:

	Pension schemes		Healthcare schemes		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Present value at 1 January	12,032	11,562	829	861	12,861	12,423
Differences on exchange	(106)	(343)	(23)	(30)	(129)	(373)
Current service cost	72	94	2	2	74	96
Past service cost/(credit) & settlements	(58)	7	–	–	(58)	7
Interest on scheme liabilities	300	391	27	34	327	425
Contributions by scheme members	1	–	–	–	1	–
Benefits paid	(737)	(743)	(58)	(63)	(795)	(806)
Actuarial (gains)/losses						
– arising from changes in demographic assumptions	26	(84)	(7)	(10)	19	(94)
– arising from changes in financial assumptions	1,032	1,105	59	70	1,091	1,175
Experience gains	10	43	(31)	(35)	(21)	8
Present value at 31 December	12,572	12,032	798	829	13,370	12,861

Changes in financial assumptions principally relate to discount rate movements in both years.

Scheme liabilities by scheme membership:

	Pension schemes		Healthcare schemes		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Active members	1,305	1,895	54	59	1,359	1,954
Deferred members	1,897	1,308	2	2	1,899	1,310
Retired members	9,370	8,829	742	768	10,112	9,597
Present value at 31 December	12,572	12,032	798	829	13,370	12,861

Approximately 95% of scheme liabilities in both years relate to guaranteed benefits.

The movements in funded scheme assets are as follows:

	Pension schemes		Healthcare schemes		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Fair value of scheme assets at 1 January	11,682	11,747	178	178	11,860	11,925
Differences on exchange	(117)	(326)	(7)	(6)	(124)	(332)
Settlements	(45)	–	–	–	(45)	–
Interest on scheme assets	289	388	7	8	296	396
Company contributions	103	82	–	–	103	82
Contributions by scheme members	3	3	–	–	3	3
Benefits paid	(696)	(704)	(15)	(17)	(711)	(721)
Actuarial gains/(losses)	1,184	492	10	15	1,194	507
Fair value of scheme assets at 31 December	12,403	11,682	173	178	12,576	11,860

	Pension schemes		Healthcare schemes		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Equities – listed	1,259	1,221	5	7	1,264	1,228
Equities – unlisted	992	1,025	68	68	1,060	1,093
Bonds – listed	2,432	2,739	5	7	2,437	2,746
Bonds – unlisted	3,163	2,417	73	74	3,236	2,491
Other assets – listed	202	549	13	13	215	562
Other assets – unlisted	4,355	3,731	9	9	4,364	3,740
Fair value of scheme assets at 31 December	12,403	11,682	173	178	12,576	11,860

Scheme assets have been diversified into equities, bonds and other assets and are typically invested via fund investment managers into both pooled and segregated mandates of listed and unlisted equities and bonds.



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11 Retirement Benefit Schemes Continued

In the above analysis investments via equity-based investment funds are shown under listed equities, and investments via bond-based investment funds are shown under listed bonds. Other assets include insurance contracts, cash and other deposits, derivatives and other hedges, recoverable taxes, infrastructure investments and investment property.

In the US, pension plan assets are invested using active investment strategies and multiple investment management firms.

Managers within each asset class cover a range of investment styles and approaches. Allowable investment types include global equity, fixed income, real assets, private equity and absolute return. The range of allowable investment types utilised for pension assets provides enhanced returns and more widely diversifies the plan.

The UK Fund historically has diversified a portion of the assets held by investing in equities listed on non-UK stock exchanges via investment funds, and by making use of liability driven investment funds and inflation opportunity funds as part of its investment portfolio. As noted above, during 2019 the Trustee acquired an insurance policy that operates as a UK Fund investment asset in a 'buy-in' transaction. The residual assets now predominantly consist of liability driven investments and absolute return funds as well as a proportion of illiquid investments, such as private equity and infrastructure investments.

The actuarial gains and losses in both years principally relate to movements in the fair values of scheme assets and actual returns are stated net of applicable taxes and fund management fees. The fair values of listed scheme assets were derived from observable data including quoted market prices and other market data, including market values of individual segregated investments and of pooled investment funds where quoted. The fair values of unlisted assets were derived from cash flow projections of estimated future income after taking into account the estimated recoverable value of these assets.

The movements in the unrecognised scheme surpluses, recognised in other comprehensive income, are as follows:

	Pension schemes			Healthcare schemes			Total		
	2020 £m	2019 £m	2018 £m	2020 £m	2019 £m	2018 £m	2020 £m	2019 £m	2018 £m
Unrecognised funded scheme surpluses at 1 January	(28)	(20)	(23)	–	–	–	(28)	(20)	(23)
Differences on exchange	3	(1)	1	–	–	–	3	(1)	1
Interest on unrecognised funded scheme surpluses	(1)	–	(2)	–	–	–	(1)	–	(2)
Movement in year (note 18)	10	(7)	4	–	–	–	10	(7)	4
Unrecognised funded scheme surpluses at 31 December	(16)	(28)	(20)	–	–	–	(16)	(28)	(20)

The principal actuarial assumptions (weighted to reflect individual scheme differences) used in the following territories are shown below. In both years, discount rates are determined by reference to normal yields on high quality corporate bonds at the balance sheet date.

	2020						2019					
	US	UK	Germany	Canada	Netherlands	Switzerland	US	UK	Germany	Canada	Netherlands	Switzerland
Rate of increase in salaries (%)	3.4	–	2.5	3.0	2.1	1.1	3.4	3.0	0.6	3.0	2.1	1.3
Rate of increase in pensions in payment (%)	2.5	3.0	1.5	Nil	0.9	Nil	2.5	3.0	0.4	Nil	0.9	Nil
Rate of increase in deferred pensions (%)	–	2.2	1.5	Nil	0.9	–	–	2.2	0.4	Nil	0.9	–
Discount rate (%)	2.6	1.4	0.9	2.3	0.5	–	3.3	2.0	0.3	3.0	1.1	0.1
General inflation (%)	2.5	3.0	1.5	2.0	2.0	0.9	2.5	3.0	0.4	2.0	2.0	1.1

	2020						2019					
	US	UK	Germany	Canada	Netherlands	Switzerland	US	UK	Germany	Canada	Netherlands	Switzerland
Weighted average duration of liabilities (years)	11.6	17.0	14.0	11.0	18.0	13.4	11.4	16.1	14.0	11.0	17.8	13.9

For healthcare inflation in the **US**, the assumption is 6.0% for 2020 (2019: 6.5%) and in **Canada**, the assumption is 5.0% for both years.



11 Retirement Benefit Schemes Continued

Mortality assumptions are subject to regular review. The principal schemes used the following tables:

US	PRI-2012 mortality tables without collar or amount, projected with MP-2020 generational projection (2019: RP-2019 and MP-2019)
UK	S2PA (YOB) with the CMI (2019) improvement model with a 1.25% long-term improvement rate (2019: CMI (2018))
Germany	RT Heubeck 2018 G (both years)
Canada	CPM-2014 Private Table (both years)
Netherlands	AG Prognosetafel 2020 (2019: AG Prognosetafel 2018)
Switzerland	LPP/BVG 2015 base table with CMI projection factors for mortality improvements with a 1.5% long-term improvement rate (both years)

Based on the above, the weighted average life expectancy, in years, for mortality tables used to determine benefit obligations is as follows:

	US		UK		Germany		Canada		Netherlands		Switzerland	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
31 December 2020												
Member age 65 (current life expectancy)	20.4	22.4	22.8	24.1	18.3	23.8	21.6	24.0	20.6	24.0	21.9	23.9
Member age 45 (life expectancy at age 65)	21.9	23.8	24.5	25.9	23.1	26.0	22.6	24.9	22.7	25.7	23.8	25.8
31 December 2019												
Member age 65 (current life expectancy)	20.6	22.6	22.4	23.9	20.2	23.7	21.6	23.9	21.0	24.3	21.8	23.8
Member age 45 (life expectancy at age 65)	22.2	24.1	24.0	25.2	23.0	25.9	22.6	24.9	23.4	26.3	23.7	25.7

For the remaining territories, typical assumptions are that real salary increases will be from 0% to 9.0% (2019: 0% to 5.0%) per annum and discount rates will be from 0% to 12.0% (2019: 0% to 11.7%) above inflation. Pension increases, where allowed for, are generally assumed to be in line with inflation. Assumptions of life expectancy are in line with best practice in each territory. For countries where there is not a deep market in such corporate bonds, the yield on government bonds is used.

The valuation of retirement benefit schemes involves judgements about uncertain future events. Sensitivities in respect of the key assumptions used to measure the principal pension schemes as at 31 December 2020 are set out below. These sensitivities show the hypothetical impact of a change in each of the listed assumptions in isolation, with the exception of the sensitivity to inflation which incorporates the impact of certain correlating assumptions such as salary increases. While each of these sensitivities holds all other assumptions constant, in practice such assumptions rarely change in isolation, while asset values also change, and the impacts may offset to some extent.

	1 year increase £m	1 year decrease £m	0.25 percentage point increase £m	0.25 percentage point decrease £m
Average life expectancy – increase/(decrease) of scheme liabilities	343	(339)		
Rate of inflation – increase/(decrease) of scheme liabilities			209	(196)
Discount rate – (decrease)/increase of scheme liabilities			(388)	411

A one percentage point increase in healthcare inflation would increase healthcare scheme liabilities by £41 million, and a one percentage point decrease would decrease liabilities by £32 million. The income statement effect of this change in assumption is not material.



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12 Deferred Tax

Net deferred tax (liabilities)/assets comprise:

	Stock relief £m	Excess of capital allowances over depreciation £m	Tax losses £m	Undistributed earnings of associates and subsidiaries £m	Retirement benefits £m	Trademarks £m	Other temporary differences £m	Total £m
1 January 2020	(45)	(208)	79	(318)	279	(17,408)	995	(16,626)
Differences on exchange	4	13	(3)	8	–	528	(44)	506
Credited/(charged) to the income statement	28	(6)	(21)	(18)	(12)	75	138	184
Credited relating to changes in tax rates	–	12	3	97	–	21	–	133
Credited to other comprehensive income	–	–	–	–	(21)	–	44	23
31 December 2020	(13)	(189)	58	(231)	246	(16,784)	1,133	(15,780)
1 January 2019	(70)	(210)	105	(281)	222	(18,246)	1,048	(17,432)
Differences on exchange	4	11	(2)	15	(9)	701	(40)	680
Subsidiaries acquired (note 23)	–	–	–	–	–	(4)	–	(4)
Credited/(charged) to the income statement	21	(9)	(24)	(52)	(15)	92	(68)	(55)
(Charged)/credited relating to changes in tax rates	–	–	–	–	(1)	49	(1)	47
Credited to other comprehensive income	–	–	–	–	82	–	56	138
31 December 2019	(45)	(208)	79	(318)	279	(17,408)	995	(16,626)

The net deferred tax liabilities are reflected in the Group balance sheet as follows: deferred tax asset of £534 million and deferred tax liability of £16,314 million (2019: deferred tax asset of £424 million and deferred tax liability of £17,050 million), after offsetting assets and liabilities where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred income taxes relate to the same fiscal authority.

At the balance sheet date, the Group has not recognised a deferred tax asset in respect of unused tax losses of £342 million (2019: £342 million) which have no expiry date and unused tax losses of £458 million (2019: £208 million) which will expire within the next 20 years.

In 2020 and 2019 the Group has not recognised any deferred tax asset in respect of deductible temporary differences which have no expiry date and has not recognised £173 million (2019: £92 million) in respect of deductible temporary differences which will expire within the next 10 years.

At the balance sheet date, the Group has unused tax credits of £80 million (2019: £80 million) which have no expiry date. No amount of deferred tax has been recognised in respect of these unused tax credits.

At the balance sheet date, the aggregate amount of undistributed earnings of subsidiaries which would be subject to dividend withholding tax and for which no withholding tax liability has been recognised was £0.6 billion (2019: £0.6 billion).

13 Trade and Other Receivables

	2020 £m	2019 £m
Trade receivables	2,763	3,369
Loans and other receivables	696	629
Prepayments and accrued income	504	343
	3,963	4,341
Current	3,721	4,093
Non-current	242	248
	3,963	4,341

The majority of receivables are held in order to collect contractual cash flows, in accordance with the Group's business model for managing financial assets, and hence are measured at amortised cost. In certain countries, however, the Group has entered into factoring arrangements and periodically sells certain trade receivables to banks and other financial institutions, without recourse, for cash. These trade receivables have been derecognised from the statement of financial position to reflect the transfer by the Group of substantially all of the risks and rewards of the receivables, including credit risk. Consequently, the cash inflows have been recognised within operating cash flows. Typically in these arrangements, the Group also acts as a collection agent for the bank. At 31 December 2020, the value of trade receivables derecognised through the factoring arrangements where the Group acts as a collection agent was £600 million (2019: £572 million) and where the Group does not act as a collection agent was £25 million (2019: £26 million). Included in trade receivables above is £205 million (2019: £295 million) of trade debtor balances which were available for factoring under these arrangements.

Included in loans and other receivables are £78 million of litigation related deposits (2019: £110 million). Management has determined that these payments represent a resource controlled by the entity, as a result of past events and from which future economic benefits are expected to flow to the entity either by being recoverable on conclusion of ongoing appeal processes or by reducing amounts payable on recognition of liabilities which have yet to be determined should the appeal process fail. These deposits are held at the fair value of consideration transferred less impairment, if applicable. The effect of discounting would be immaterial.

Prepayments and accrued income include £8 million (2019: £5 million) of accrued income primarily in relation to rebates.

Amounts receivable from related parties including associated undertakings are shown in note 26.

Trade and other receivables have been reported in the balance sheet net of allowances as follows:

	2020 £m	2019 £m
Trade receivables – gross	2,804	3,396
Trade receivables – allowance	(41)	(27)
Loans and other receivables – gross	696	639
Loans and other receivables – allowance	–	(10)
Prepayments and accrued income	504	343
Net trade and other receivables per balance sheet	3,963	4,341

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13 Trade and Other Receivables Continued

The movements in the allowance account are as follows:

	2020			2019		
	Trade receivables £m	Loans and other receivables £m	Total £m	Trade receivables £m	Loans and other receivables £m	Total £m
1 January	27	10	37	30	10	40
Differences on exchange	(2)	–	(2)	(2)	–	(2)
Provided in the year	31	–	31	24	–	24
Released	(15)	(10)	(25)	(25)	–	(25)
31 December	41	–	41	27	10	37

As permitted by IFRS 9, the loss allowance on trade receivables arising from the recognition of revenue under IFRS 15 is initially measured at an amount equal to lifetime expected losses. Allowances in respect of loans and other receivables are initially recognised at an amount equal to 12-month expected credit losses. Allowances are measured at an amount equal to the lifetime expected credit losses where the credit risk on the receivables increases significantly after initial recognition.

The Group holds bank guarantees, other guarantees and credit insurance in respect of some of the past due debtor balances.

Trade and other receivables are predominantly denominated in the functional currencies of subsidiary undertakings apart from the following: US dollar: 2.6% (2019: 4.2%), UK sterling: 0.1% (2019: 0.2%), Euro: 0.4% (2019: 1.1%) and other currencies: 1.7% (2019: 11.2%).

There is no material difference between the above amounts for trade and other receivables and their fair value due to the short-term duration of the majority of trade and other receivables as determined using discounted cash flow analysis. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of internationally dispersed customers.

14 Investments Held at Fair Value

	2020 £m	2019 £m
Investments		
Fair value through P&L	255	127
Fair value through OCI	9	8
	264	135
Current	242	123
Non-current	22	12
	264	135

Investments held at fair value through other comprehensive income (OCI) relate to the Group's corporate venturing partnerships with various start-up businesses which are held for their strategic value.

	2020 £m	2019 £m
Functional currency	260	131
US dollar	4	4
	264	135

The classification of these investments under the IFRS 13 fair value hierarchy is given in note 22.

There is no material difference between the investments held at fair value and their gross contractual values.



15 Derivative Financial Instruments

The fair values of derivatives are determined based on market data (primarily yield curves, implied volatilities and exchange rates) to calculate the present value of all estimated flows associated with each derivative at the balance sheet date. In the absence of sufficient market data, fair values would be based on the quoted market price of similar derivatives. The classification of these derivative assets and liabilities under the IFRS 13 fair value hierarchy is given in note 22.

	2020		2019	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Fair value hedges				
– interest rate swaps	20	–	177	62
– cross-currency swaps	255	–	191	–
Cash flow hedges				
– interest rate swaps	–	–	–	187
– cross-currency swaps	189	–	114	84
– forward foreign currency contracts	62	100	57	50
Net investment hedges				
– forward foreign currency contracts	211	43	178	19
Held-for-trading*				
– interest rate swaps	45	53	3	6
– forward foreign currency contracts	15	123	45	60
Total	797	319	765	468
Current	430	278	313	181
Non-current	367	41	452	287
	797	319	765	468
Derivatives				
– in respect of net debt**	518	172	527	384
– other	279	147	238	84
	797	319	765	468

* Derivatives which do not meet the tests for hedge accounting under IFRS 9 or which are not designated as hedging instruments are referred to as 'held-for-trading'. These derivatives principally consist of interest rate swaps and forward foreign currency contracts which have not been designated as hedges due to their value changes offsetting with other components of net finance costs relating to financial assets and financial liabilities. The Group does not use derivatives for speculative purposes. All derivatives are undertaken for risk management purposes.

** Derivatives in respect of net debt are in a net asset position of £346 million as at 31 December 2020 (2019: net asset position of £143 million). The Group's net debt is presented in note 19.

For cash flow hedges, the timing of expected cash flows is as follows: assets of £251 million (2019: £171 million) of which £98 million (2019: £51 million) is expected within one year and £143 million (2019: £114 million) beyond five years and liabilities of £100 million (2019: £321 million) of which £94 million (2019: £75 million) is expected within one year and £nil (2019: £163 million) beyond five years.

The Group's cash flow hedges are principally in respect of sales or purchases of inventory and certain debt instruments. A certain number of forward foreign currency contracts were used to manage the currency profile of external borrowings and are reflected in the currency table in note 19. Interest rate swaps have been used to manage the interest rate profile of external borrowings and are reflected in the re-pricing table in note 19.



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15 Derivative Financial Instruments Continued

The tables below set out the maturities of the Group's derivative financial instruments on an undiscounted contractual basis, based on spot rates.

The maturity dates of all gross-settled derivative financial instruments are as follows:

	2020				2019			
	Assets		Liabilities		Assets		Liabilities	
	Inflow £m	Outflow £m	Inflow £m	Outflow £m	Inflow £m	Outflow £m	Inflow £m	Outflow £m
Within one year								
– forward foreign currency contracts	7,345	(6,567)	10,661	(10,185)	10,168	(9,367)	8,534	(8,069)
– cross-currency swaps	1,756	(1,655)	–	–	35	(38)	18	(62)
Between one and two years								
– forward foreign currency contracts	522	(498)	285	(266)	548	(524)	278	(263)
– cross-currency swaps	33	(54)	–	–	811	(765)	969	(1,012)
Between two and three years								
– cross-currency swaps	1,446	(1,261)	–	–	15	(23)	17	(36)
Between three and four years								
– cross-currency swaps	19	(29)	–	–	725	(590)	683	(679)
Between four and five years								
– cross-currency swaps	469	(451)	–	–	9	(15)	10	(15)
Beyond five years								
– cross-currency swaps	767	(594)	–	–	762	(609)	460	(435)
	12,357	(11,109)	10,946	(10,451)	13,073	(11,931)	10,969	(10,571)

The maturity dates of net-settled derivative financial instruments, which primarily relate to interest rate swaps, are as follows:

	2020		2019	
	Assets Inflow £m	Liabilities Outflow £m	Assets Inflow £m	Liabilities Outflow £m
Within one year	296	263	44	44
Between one and two years	26	21	25	39
Between two and three years	16	18	25	39
Between three and four years	–	–	10	21
Between four and five years	–	–	43	63
Beyond five years	–	–	182	263
	338	302	329	469

15 Derivative Financial Instruments Continued

The items designated as hedging instruments are as follows:

	2020		2019	
	Nominal amount of hedging instrument £m	Changes in fair value used for calculating hedge ineffectiveness £m	Nominal amount of hedging instrument £m	Changes in fair value used for calculating hedge ineffectiveness £m
Interest rate risk exposure:				
Fair value hedges				
– interest rate swaps	757	(5)	3,065	73
– cross-currency swaps	1,428	66	1,436	(72)
Cash flow hedges				
– interest rate swaps	–	–	4,068	(103)
– cross-currency swaps	2,822	(155)	2,695	(61)
Foreign currency risk exposure:				
Cash flow hedges				
– forward foreign currency contracts	3,279	(36)	3,827	(3)
Net investment hedges (derivative related)				
– forward foreign currency contracts	5,922	156	5,274	161
Net investment hedges (non-derivative related)				
– debt (carrying value) in borrowings designated as net investment hedges of net assets	392	21	372	22

16 Inventories

	2020 £m	2019 £m
Raw materials and consumables	2,362	2,750
Finished goods and work in progress	3,549	3,258
Goods purchased for resale	87	86
	5,998	6,094

Inventories pledged as security for liabilities amount to £2 million (2019: £7 million). Write-offs taken to other operating expenses in the Group income statement were £309 million (2019: £255 million; 2018: £148 million). In 2020, this included £24 million in relation to the restructuring in Indonesia (refer to note 3(e)) and £47 million as a result of the decision to withdraw glo Sens from Japan. Goods purchased for resale include Group brands produced under third-party contract manufacturing arrangements.

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17 Cash and Cash Equivalents

	2020 £m	2019 £m
Cash and bank balances	2,940	2,256
Cash equivalents	199	270
	3,139	2,526

The carrying value of cash and cash equivalents approximates their fair value.

Cash and cash equivalents are denominated in the functional currency of the subsidiary undertaking or other currencies as shown below:

	2020 £m	2019 £m
Functional currency	2,597	2,199
US dollar	197	127
Euro	170	64
Other currencies	175	136
	3,139	2,526

In the Group cash flow statement, net cash and cash equivalents are shown after deducting bank overdrafts and accrued interest where applicable, as follows:

	2020 £m	2019 £m
Cash and cash equivalents as above	3,139	2,526
Less overdrafts and accrued interest	(251)	(491)
Net cash and cash equivalents	2,888	2,035

Cash and cash equivalents include restricted amounts of £878 million (2019: £445 million) due to subsidiaries in CCAA protection (note 28), 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.

Cash and cash equivalents also include £48 million (2019: £14 million) of cash that is held as a hedging instrument.



18 Capital and Reserves

(a) Share capital

	Ordinary shares of 25p each Number of shares	£m
Allotted and fully paid		
1 January 2020	2,456,520,738	614.12
Changes during the year		
– share option schemes	70,859	0.02
31 December 2020	2,456,591,597	614.14
Allotted and fully paid		
1 January 2019	2,456,415,884	614.09
Changes during the year		
– share option schemes	104,854	0.03
31 December 2019	2,456,520,738	614.12
Allotted and fully paid		
1 January 2018	2,456,278,414	614.06
Changes during the year		
– share option schemes	137,470	0.03
31 December 2018	2,456,415,884	614.09

(b) Share premium account, capital redemption reserves and merger reserves comprise:

	Share premium account £m	Capital redemption reserves £m	Merger reserves £m	Total £m
31 December 2020	103	101	26,414	26,618
31 December 2019	94	101	26,414	26,609
31 December 2018	91	101	26,414	26,606

Share premium account

The share premium account includes the difference between the value of shares issued and their nominal value. The share premium increase includes £2 million (2019: £3 million; 2018: £4 million) in respect of ordinary shares issued under the Company's share option schemes. A further £7 million (2019: £nil; 2018: £nil) increase in share premium is related to shares repurchased and not cancelled that have been transferred from the Company to other Group undertakings, to be granted to certain employees on vesting of awards, and represents the excess of transfer price of the share over the original weighted average cost of shares.

Capital redemption account

On the purchase of own shares as part of the share buy-back programme for shares which are cancelled, a transfer is made from retained earnings to the capital redemption reserve equivalent to the nominal value of shares purchased. Purchased shares which are not cancelled are classified as treasury shares and presented as a deduction from total equity.



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18 Capital and Reserves Continued

Merger reserve account

The merger reserve comprises:

- a. In 1999, shares were issued for the acquisition of the Rothmans International B.V. Group and the difference between the fair value of shares issued and their nominal value of £3,748 million was credited to merger reserves; and
- b. On 25 July 2017, the Group announced the completion of the acquisition of the remaining 57.8% of RAI not already owned by the Group. Shares were issued for the acquisition and the difference between the fair value of shares issued and their nominal value of £22,666 million was credited to merger reserves.

(c) Equity attributed to owners of the parent – movements in other reserves and retained earnings (which are after deducting treasury shares) comprise:

	Translation reserve (i) £m	Hedging reserve (ii) £m	Fair value reserve (iii) £m	Revaluation reserve (iv) £m	Other (v) £m	Total other reserves £m	Retained earnings	
							Treasury shares (vi) £m	Other £m
1 January 2020	(3,974)	(346)	13	179	573	(3,555)	(5,261)	45,495
Comprehensive income and expense								
Profit for the year	–	–	–	–	–	–	–	6,400
Differences on exchange	(2,582)	–	–	–	–	(2,582)	–	–
Cash flow hedges								
– net fair value losses	–	(256)	–	–	–	(256)	–	–
– reclassified and reported in profit for the year	–	90	–	–	–	90	–	–
Net investment hedges								
– net fair value losses	(16)	–	–	–	–	(16)	–	–
– differences on exchange on borrowings	(163)	–	–	–	–	(163)	–	–
Associates – share of OCI, net of tax (note 5)	(95)	(3)	–	–	–	(98)	–	–
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss (note 6(f))	–	44	–	–	–	44	–	–
Retirement benefit schemes								
– net actuarial gains (note 11)	–	–	–	–	–	–	–	105
– surplus recognition (note 11)	–	–	–	–	–	–	–	10
Associates – share of OCI, net of tax (note 5)	–	–	(31)	–	–	(31)	–	(3)
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss (note 6(f))	–	–	–	–	–	–	–	(26)
Other changes in equity								
Cash flow hedges reclassified and reported in total assets	–	(33)	–	–	–	(33)	–	–
Employee share options								
– value of employee services	–	–	–	–	–	–	–	88
– treasury shares used for share option schemes	–	–	–	–	–	–	9	(16)
Dividends and other appropriations								
– ordinary shares	–	–	–	–	–	–	–	(4,747)
Purchase of own shares								
– held in employee share ownership trusts	–	–	–	–	–	–	(17)	–
Other movements	–	–	–	–	–	–	119	(115)
31 December 2020	(6,830)	(504)	(18)	179	573	(6,600)	(5,150)	47,191

18 Capital and Reserves Continued

	Translation reserve (i) £m	Hedging reserve (ii) £m	Fair value reserve (iii) £m	Revaluation reserve (iv) £m	Other (v) £m	Total other reserves £m	Retained earnings	
							Treasury shares (vi) £m	Other £m
1 January 2019	(914)	(177)	6	179	573	(333)	(5,242)	43,799
Comprehensive income and expense								
Profit for the year	–	–	–	–	–	–	–	5,704
Differences on exchange	(2,948)	–	–	–	–	(2,948)	–	–
Cash flow hedges								
– net fair value losses	–	(246)	–	–	–	(246)	–	–
– reclassified and reported in profit for the year	–	53	–	–	–	53	–	–
Net investment hedges								
– net fair value gains	21	–	–	–	–	21	–	–
– differences on exchange on borrowings	(18)	–	–	–	–	(18)	–	–
Associates – share of OCI, net of tax (note 5)	(115)	–	–	–	–	(115)	–	–
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss (note 6(f))	–	56	–	–	–	56	–	–
Retirement benefit schemes								
– net actuarial losses (note 11)	–	–	–	–	–	–	–	(582)
– surplus recognition (note 11)	–	–	–	–	–	–	–	(7)
Associates – share of OCI, net of tax (note 5)	–	–	7	–	–	7	–	–
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss (note 6(f))	–	–	–	–	–	–	–	75
Other changes in equity								
Cash flow hedges reclassified and reported in total assets	–	(32)	–	–	–	(32)	–	–
Employee share options								
– value of employee services	–	–	–	–	–	–	–	115
Dividends and other appropriations								
– ordinary shares	–	–	–	–	–	–	–	(3,476)
Purchase of own shares								
– held in employee share ownership trusts	–	–	–	–	–	–	(117)	–
Other movements	–	–	–	–	–	–	98	(133)
31 December 2019	(3,974)	(346)	13	179	573	(3,555)	(5,261)	45,495

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18 Capital and Reserves Continued

	Translation reserve (i) £m	Hedging reserve (ii) £m	Fair value reserve (iii) £m	Revaluation reserve (iv) £m	Other (v) £m	Total other reserves £m	Retained earnings	
							Treasury shares (vi) £m	Other £m
31 December 2017	(4,029)	(132)	17	179	573	(3,392)	(5,195)	42,130
Accounting policy change (IFRS 9) (note 30)	–	–	(9)	–	–	(9)	–	(29)
1 January 2018	(4,029)	(132)	8	179	573	(3,401)	(5,195)	42,101
Comprehensive income and expense								
Profit for the year	–	–	–	–	–	–	–	6,032
Differences on exchange	3,861	–	–	–	–	3,861	–	–
Cash flow hedges								
– net fair value losses	–	(58)	–	–	–	(58)	–	–
– reclassified and reported in profit for the year	–	17	–	–	–	17	–	–
Investments held at fair value								
– reclassified and reported in retained earnings	–	–	(8)	–	–	(8)	–	8
Net investment hedges								
– net fair value losses	(472)	–	–	–	–	(472)	–	–
– differences on exchange on borrowings	(236)	–	–	–	–	(236)	–	–
Associates – share of OCI, net of tax (note 5)	(38)	–	–	–	–	(38)	–	–
Tax on items recognised directly in other comprehensive income that may be reclassified subsequently to profit or loss (note 6(f))	–	18	–	–	–	18	–	–
Retirement benefit schemes								
– net actuarial gains	–	–	–	–	–	–	–	138
– surplus recognition	–	–	–	–	–	–	–	4
Associates – share of OCI, net of tax (note 5)	–	–	6	–	–	6	–	–
Tax on items recognised directly in other comprehensive income that will not be reclassified subsequently to profit or loss (note 6(f))	–	–	–	–	–	–	–	(33)
Other changes in equity								
Cash flow hedges reclassified and reported in total assets	–	(22)	–	–	–	(22)	–	–
Employee share options								
– value of employee services	–	–	–	–	–	–	–	121
Dividends and other appropriations								
– ordinary shares	–	–	–	–	–	–	–	(4,463)
Purchase of own shares								
– held in employee share ownership trusts	–	–	–	–	–	–	(139)	–
Non-controlling interests – acquisitions	–	–	–	–	–	–	–	(11)
Other movements	–	–	–	–	–	–	92	(98)
31 December 2018	(914)	(177)	6	179	573	(333)	(5,242)	43,799

18 Capital and Reserves Continued

i. Translation reserve:

The translation reserve is explained in the accounting policy on foreign currencies in note 1.

In 2018, within the translation reserve differences on exchange, a gain of £107 million has been recognised in relation to the application of hyperinflationary accounting in Venezuela as explained in note 3(h).

ii. Hedging reserve:

The hedging reserve is explained in the accounting policy on financial instruments in note 1.

Of the amounts reclassified from the hedging reserve and reported in profit for the year, a gain of £16 million (2019: £12 million gain; 2018: £15 million gain) and a gain of £19 million (2019: £3 million gain; 2018: £23 million gain) were reported within revenue and raw materials and consumables, respectively, together with a loss of £2 million (2019: £11 million gain; 2018: £7 million loss) reported in other operating expenses and a gain of £57 million (2019: £27 million gain; 2018: £14 million loss) reported within net finance costs.

The Group hedges certain foreign currency denominated borrowings with cross-currency interest rate swaps. As permitted by IFRS 9 *Financial Instruments*, the foreign currency basis spreads have been separated from the hedging instrument and are recognised in reserves as a 'cost of hedging' and are reclassified to the income statement in the same period in which profit and loss is affected by the hedged expected cashflows as a component of the associated interest expense. The basis spreads are disclosed within hedging reserves as they are not material. Included within the balance of hedging reserves at 31 December 2020 is an accumulated gain of £9 million (2019: £14 million; 2018: £20 million) in respect of the cost of hedging.

iii. Fair value reserve:

The fair value reserve is explained in the accounting policy on financial instruments in note 1. Fair value gains and losses arising from investments held at fair value through other comprehensive income are recognised in this reserve.

iv. Revaluation reserve:

The revaluation reserve relates to the acquisition of the cigarette and snus business of ST in 2008.

v. Other reserves:

Other reserves comprise:

- (a) £483 million which arose in 1998 from merger accounting in a Scheme of Arrangement and Reconstruction whereby British American Tobacco p.l.c. acquired the entire share capital of B.A.T Industries p.l.c. and the share capital of that company's principal financial services subsidiaries was distributed, so effectively demerging them; and
- (b) In the 1999 Rothmans transaction, convertible redeemable preference shares were issued as part of the consideration. The discount on these shares was amortised by crediting other reserves and charging retained earnings. The £90 million balance in other reserves comprises the accumulated balance in respect of the preference shares converted during 2004.

vi. Treasury shares:

Total equity attributable to owners of the parent is stated after deducting the cost of treasury shares which include £4,836 million (2019: £4,845 million; 2018: £4,845 million) for shares repurchased and not cancelled and £314 million (2019: £416 million; 2018: £397 million) in respect of the cost of own shares held in employee share ownership trusts. The reduction in the shares repurchased and not cancelled is primarily due to shares reissued to satisfy the vesting of US share options.

The share buy-back programme was suspended from 30 July 2014. As at 31 December 2020, treasury shares include 6,053,158 (2019: 8,275,677; 2018: 7,536,408) shares held in trust and 162,347,246 (2019: 162,645,590; 2018: 162,645,590) shares repurchased and not cancelled as part of the Company's share buy-back programme. From March 2020 the Company has utilised shares acquired in the share buy-back programme to satisfy shared-based payment awards made to certain employees.

Taxation in equity

The tax attributable to components of other comprehensive income is as follows:

	2020 £m	2019 £m	2018 £m
Hedging reserve			
Cash flow hedges – net fair value losses	44	56	18
	44	56	18
Retained earnings			
– actuarial (gains)/losses in respect of subsidiaries	(26)	75	(33)
	(26)	75	(33)
Owners of the parent	18	131	(15)
Non-controlling interests	–	–	–
Total tax recognised in other comprehensive income for the year (note 6(f))	18	131	(15)

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18 Capital and Reserves Continued

(d) Non-controlling interests

Movements in non-controlling interests primarily relate to profit for the year and dividends (reported as a movement in retained earnings) and differences on exchange arising from the translation into sterling (reported as a movement in other reserves). Information on subsidiaries with material non-controlling interests is provided in note 28.

(e) Dividends and other appropriations

With effect from 1 January 2018, the Company pays interim dividends on a quarterly basis. The interim quarterly dividend payment for the year ended 31 December 2019 of 210.4p per ordinary share (31 December 2018: 203.0p per ordinary share) was payable in four equal instalments: amounts payable in May 2020 of £1,185 million (May 2019: £1,157 million), August 2020 of £1,195 million (August 2019: £1,159 million), November 2020 of £1,206 million (November 2019: £1,160 million) and £1,203 million in February 2021 (February 2020: £1,161 million) respectively. The total dividends recognised as an appropriation from reserves in 2020 was £4,747 million (2019: £3,476 million).

As described in last year's annual report, the Group revised in 2019 the recognition of the dividend. From 2019, the Group recognises interim dividends as a liability in the Group's financial statements in the period in which they are paid. Prior to this, interim dividends were recognised when confirmed by the Directors of the Company.

The Board has declared an interim dividend of 215.6p per ordinary share of 25p, for the year ended 31 December 2020, payable in four equal quarterly instalments of 53.9p per ordinary share in May 2021, August 2021, November 2021 and February 2022. These payments will be recognised as appropriations from reserves in 2021 and 2022. The total amount payable is estimated to be £4,946 million based on the number of shares outstanding at the date of these accounts.

19 Borrowings

	Currency	Maturity dates	Interest rates	2020 £m	2019 £m
Eurobonds	Euro	2021 to 2045	0.9% to 4.9%	8,875	7,591
	Euro	2021	3m EURIBOR +50bps	984	931
	UK sterling	2021 to 2055	1.8% to 7.3%	4,590	4,161
	Swiss franc	2021 to 2026	0.6% to 1.4%	540	510
Bonds issued pursuant to Rules under the US Securities Act (as amended)	US dollar	2022 to 2050	1.7% to 8.1%	25,461	23,805
	US dollar	2022	USD 3m LIBOR + 88bps	548	1,325
Bonds and notes				40,998	38,323
Commercial paper				–	1,056
Other loans				1,929	4,624
Bank loans				317	293
Bank overdrafts				249	491
Lease liabilities				475	579
				43,968	45,366

Other loans primarily comprise £1,929 million (2019: £3,859 million) relating to a term loan maturing in January 2022 and £nil (2019: £745 million) relating to bilateral facilities. Commercial paper is issued at competitive rates to meet short-term borrowing requirements as and when needed.

Current borrowings per the balance sheet include interest payable of £499 million at 31 December 2020 (2019: £474 million).

Included within borrowings are £5,356 million (2019: £5,136 million) of borrowings subject to fair value hedges where their amortised cost has been increased by £173 million (2019: £210 million) in the table above.

The fair value of borrowings is estimated to be £47,029 million (2019: £45,674 million) of which £44,059 million (2019: £38,631 million) has been calculated using quoted market prices and is within level 1 of the fair value hierarchy and £2,970 million (2019: £7,043 million) has been calculated based on discounted cash flow analysis and is within level 3 of the fair value hierarchy.

Amounts secured on Group assets including property, plant and equipment, inventory and receivables as at 31 December 2020 are £21 million (2019: £88 million). The majority of lease liabilities are also secured against the associated assets.

19 Borrowings Continued

Borrowings are repayable as follows:

	Per balance sheet		Contractual gross maturities	
	2020 £m	2019 £m	2020 £m	2019 £m
Within one year	4,041	7,562	4,901	8,926
Between one and two years	4,049	2,947	5,355	4,181
Between two and three years	2,587	6,992	3,829	8,215
Between three and four years	3,854	2,505	5,095	3,529
Between four and five years	4,108	3,173	5,025	3,871
Beyond five years	25,329	22,187	35,848	32,176
	43,968	45,366	60,053	60,898

The contractual gross maturities in each year include the borrowings maturing in that year together with forecast interest payments on all borrowings which are outstanding for all or part of that year.

Borrowings are denominated in the functional currency of the subsidiary undertaking or other currencies as shown below:

	Functional currency £m	US dollar £m	UK sterling £m	Euro £m	Other currencies £m	Total £m
31 December 2020						
Total borrowings	32,000	2,700	452	8,221	595	43,968
Effect of derivative financial instruments						
– cross-currency swaps	3,795	–	(450)	(3,536)	(265)	(456)
– forward foreign currency contracts	593	(460)	–	(520)	394	7
	36,388	2,240	2	4,165	724	43,519
31 December 2019						
Total borrowings	32,536	2,772	451	8,919	688	45,366
Effect of derivative financial instruments						
– cross-currency swaps	3,946	–	(450)	(3,432)	(249)	(185)
– forward foreign currency contracts	(610)	(213)	–	440	372	(11)
	35,872	2,559	1	5,927	811	45,170

The exposure to interest rate changes when borrowings are re-priced is as follows:

	Within 1 year £m	Between 1-2 years £m	Between 2-3 years £m	Between 3-4 years £m	Between 4-5 years £m	Beyond 5 years £m	Total £m
31 December 2020							
Total borrowings	6,519	1,568	2,594	3,855	4,108	25,324	43,968
Effect of derivative financial instruments							
– interest rate swaps	219	(219)	–	–	–	–	–
– cross-currency swaps	454	–	(744)	–	(23)	(143)	(456)
	7,192	1,349	1,850	3,855	4,085	25,181	43,512
31 December 2019							
Total borrowings	11,145	1,888	4,432	2,451	3,161	22,289	45,366
Effect of derivative financial instruments							
– interest rate swaps	1,794	(508)	(226)	–	–	(1,060)	–
– cross-currency swaps	1,335	(758)	–	(649)	–	(115)	(187)
	14,274	622	4,206	1,802	3,161	21,114	45,179

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19 Borrowings Continued

Lease liabilities are repayable as follows:

	Per balance sheet		Contractual gross maturities	
	2020 £m	2019 £m	2020 £m	2019 £m
Within one year	137	154	156	178
Between one and two years	98	120	114	138
Between two and three years	71	92	80	100
Between three and four years	47	64	55	72
Between four and five years	35	43	41	51
Beyond five years	87	106	104	135
	475	579	550	674

For more information on leasing arrangements refer to note 9(b).

The Group's undrawn committed borrowing facilities (note 22) amount to £9,366 million (2019: £6,000 million) with £6,366 million maturing within one year (2019: £3,000 million maturing within one year) and with £3,000 million maturing between four and five years (2019: £3,000 million maturing between one and two years).

The Group defines net debt as follows:

	2020 £m	2019 £m
Borrowings (excluding lease liabilities)*	43,493	44,787
Lease liabilities	475	579
Derivatives in respect of net debt (note 15)	(346)	(143)
Cash and cash equivalents (note 17)	(3,139)	(2,526)
Current investments held at fair value (note 14)	(242)	(123)
	40,241	42,574

* Borrowings as at 31 December 2020 include £790 million (2019: £848 million) in respect of the purchase price adjustments relating to the acquisition of Reynolds American.

The movements in net debt are presented below along with a reconciliation to the financing activities in the Group Cash Flow Statement:

						2020 £m
	Opening balance	Subsidiaries acquired	Cash flow	Foreign exchange	Fair value, accrued interest and other	Closing balance
Borrowings (excluding lease liabilities)	44,787	–	(1,049)	(195)	(50)	43,493
Lease liabilities	579	1	(164)	(24)	83	475
Derivatives in respect of net debt (note 15)	(143)	–	(240)	(134)	171	(346)
Cash and cash equivalents (note 17)	(2,526)	(96)	(768)	264	(13)	(3,139)
Current investments held at fair value (note 14)	(123)	–	(119)	20	(20)	(242)
	42,574	(95)	(2,340)	(69)	171	40,241

19 Borrowings Continued

	Opening balance	Accounting policy change (IFRS 16) (note 30)	Subsidiaries acquired	Cash flow	Foreign exchange	Fair value, accrued interest and other	2019 £m Closing balance
Borrowings (excluding lease liabilities)	47,495	–	–	(1,176)	(1,536)	4	44,787
Lease liabilities	14	607	3	(154)	(30)	139	579
Derivatives in respect of net debt (note 15)	(378)	–	–	(391)	598	28	(143)
Cash and cash equivalents (note 17)	(2,602)	–	–	17	57	2	(2,526)
Current investments held at fair value (note 14)	(178)	–	–	95	38	(78)	(123)
	44,351	607	3	(1,609)	(873)	95	42,574

'Fair value, accrued interest and other' movements in lease liabilities in 2020 mainly comprise additions of £85 million (2019: £135 million) (net of reassessments, modifications and terminations), see note 9(a). The £20 million movement (2019: £78 million increase) in current investments held at fair value represents the fair value gains for these investments.

	2020 £m	2019 £m
Cash flows per net debt statement	(2,340)	(1,609)
Non-financing cash flows included in net debt	1,129	(329)
Interest paid	(1,737)	(1,601)
Interest element of lease liabilities	(26)	(32)
Remaining cash flows relating to derivative financial instruments	(43)	(173)
Purchases of own shares held in employee share ownership trusts	(18)	(117)
Dividends paid to owners of the parent	(4,745)	(4,598)
Capital injection from non-controlling interests	17	20
Dividends paid to non-controlling interests	(136)	(157)
Other	2	3
Net cash used in financing activities per cash flow statement	(7,897)	(8,593)



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20 Provisions for Liabilities

	Restructuring of existing businesses £m	Employee- related benefits £m	Fox River £m	Other provisions £m	Total £m
1 January 2020	298	28	73	659	1,058
Differences on exchange	5	(2)	–	(57)	(54)
Subsidiaries acquired	–	–	–	6	6
Provided in respect of the year	60	19	–	312	391
– in respect of MSA litigation (Texas, Minnesota, Mississippi)	–	–	–	212	212
– in respect of other	60	19	–	100	179
Utilised during the year	(122)	(7)	(3)	(284)	(416)
– in respect of excise dispute in Russia	–	–	–	(226)	(226)
– in respect of other	(122)	(7)	(3)	(58)	(190)
31 December 2020	241	38	70	636	985
Analysed on the balance sheet as					
– current	165	23	1	409	598
– non-current	76	15	69	227	387
	241	38	70	636	985

	Restructuring of existing businesses £m	Employee- related benefits £m	Fox River £m	Other provisions £m	Total £m
1 January 2019	127	33	108	381	649
Differences on exchange	(11)	(1)	–	(17)	(29)
Provided in respect of the year	235	9	–	793	1,037
– in respect of Quebec Class Action	–	–	–	436	436
– in respect of excise dispute in Russia	–	–	–	252	252
– in respect of other	235	9	–	105	349
Utilised during the year	(53)	(13)	(35)	(498)	(599)
– in respect of Quebec Class Action	–	–	–	(436)	(436)
– in respect of other	(53)	(13)	(35)	(62)	(163)
31 December 2019	298	28	73	659	1,058
Analysed on the balance sheet as					
– current	203	14	6	447	670
– non-current	95	14	67	212	388
	298	28	73	659	1,058

The restructuring provisions relate to the restructuring and integration costs incurred and are reported as adjusting items. The principal restructuring activities in 2020 and 2019 are as described in note 3(e). While some elements of the non-current provisions of £76 million will unwind over several years, as termination payments are made over extended periods in some countries, it is estimated that approximately 88% of these non-current provisions will unwind within five years.

Employee-related benefits mainly relate to employee benefits other than post-employment benefits. The principal components of these provisions are gratuity and termination awards, and 'jubilee' payments due after a certain service period. It is estimated that approximately 61% of the non-current provisions of £15 million will unwind within five years.

A provision of £274 million was made in 2011 for a potential claim under a 1998 settlement agreement entered into by a Group subsidiary in respect of the clean-up of sediment in the Fox River. On 30 September 2014, the Group, NCR, Appvion and Windward Prospects entered into a funding agreement; the details of this agreement are explained in note 27. This agreement led to payments of £2 million in 2020 (2019: £32 million). In addition, the Group incurred legal costs of £1 million (2019: £3 million), which were also charged against the provision. It is expected that the non-current provision will unwind within five years.



20 Provisions for Liabilities Continued

Other provisions comprise balances set up in the ordinary course of general business that cannot be classified within the other categories, such as sales returns and onerous contracts, together with amounts in respect of supplier, excise and other disputes.

The nature of the amounts provided in respect of disputes is such that the extent and timing of cash flows are difficult to estimate and the ultimate liability may vary from the amounts provided. Other provisions also include a provision for interest of £129 million in relation to the Franked Investment Income Group Litigation Order (FII GLO), as mentioned in notes 4(b) and 6(b).

In 2020, the Group recognised a provision of US\$272 million (£212 million) in relation to the ITG MSA litigation agreements with the states of Texas, Minnesota and Mississippi. Further details are provided in note 27.

On 1 March 2019, the Quebec Court of Appeal in Montreal upheld the Superior Court's decision of May 2015 (reducing ITCAN's share of the judgment due to a change in interest computation to a maximum of CAD\$9.2 billion). The Court of Appeal also upheld the previously stated requirements for the defendants to deposit CAD\$1.1 billion into an escrow account. The Board of Directors of ITCAN reassessed the recoverability of the litigation related deposit and, accordingly, the Group recognised a charge against the income statement of CAD\$758 million (£436 million) in 2019, reflecting the amount of the judgment that is considered to be probable and estimable in line with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Consequently, the Group utilised the litigation related deposit which was shown as a receivable at 31 December 2018 (within trade and other receivables) against the current estimate of the liability and both the provision and litigation related deposit were reduced accordingly. Further details are provided in note 27.

In 2019, the Group recognised a provision of £252 million in relation to the Russia excise dispute. The provision was utilised in January 2020, when the tax claim was paid.

Amounts provided above are shown net of reversals of unused provisions which include reversals of £72 million (2019: £18 million) for restructuring of existing businesses, £4 million (2019: £3 million) for employee benefits and £125 million (2019: £97 million) for other provisions, of which £4 million (2019: £10 million) was reclassified to trade and other payables.

21 Trade and Other Payables

	2020 £m	2019 £m
Trade payables	3,722	3,453
Duty, excise and other taxes	3,410	3,852
Accrued charges and deferred income	2,228	2,037
FII GLO deferred income (note 6(b))	963	963
Social security and other taxation	53	51
Sundry payables	381	405
	10,757	10,761
Current	9,693	9,727
Non-current	1,064	1,034
	10,757	10,761

As explained in note 13, the Group acts as a collection agent for banks and other financial institutions in certain debt factoring arrangements. The cash collected in respect of these arrangements that has not yet been remitted amounts to £128 million (2019: £115 million) and is included in sundry payables.

In addition, the Group has certain Supply Chain Financing (SCF) or 'reverse factoring' arrangements in place. The principal purpose of these arrangements is to provide the supplier with the option to access liquidity earlier through the sale of its receivables due from the Group to a bank or other financial institution prior to their due date. Management has determined that the Group's payables to these suppliers have neither been extinguished nor have the liabilities been significantly modified by these arrangements. The value of amounts payable, invoice due dates and other terms and conditions applicable, from the Group's perspective, remain unaltered, with only the ultimate payee being changed. At 31 December 2020, the value of amounts payable under the SCF programmes was £48 million (2019: £71 million). The cash outflows in respect of these arrangements have been recognised within operating cash flows.

Accrued charges and deferred income include £nil of deferred income (2019: £4 million) and £55 million (2019: £61 million) in respect of interest payable mainly related to tax matters. FII GLO deferred income of £963 million relates to receipts in 2015, in respect of the Franked Investment Income Government Litigation Order (note 6(b)). Amounts payable to related parties including associated undertakings are shown in note 26.

There is no material difference between the above amounts for trade and other payables and their fair value due to the short-term duration of the majority of trade and other payables, as determined using discounted cash flow analysis.

Trade and other payables are predominantly denominated in the functional currencies of subsidiary undertakings with less than 5% in other currencies (2019: less than 6% in other currencies).



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22 Financial Instruments and Risk Management

Management of financial risks

One of the principal responsibilities of Treasury is to manage the financial risks arising from the Group's underlying operations. Specifically, Treasury manages, within an overall policy framework set by the Group's Main Board and Corporate Finance Committee (CFC), the Group's exposure to funding and liquidity, interest rate, foreign exchange and counterparty risks. The Group's treasury position is monitored by the CFC which meets regularly throughout the year and is chaired by the Group Finance Director. The approach is one of risk reduction within an overall framework of delivering total shareholder return.

The Group defines capital as net debt (note 19) and equity (note 18). There are no externally imposed capital requirements for the Group. Group policies include a set of financing principles that provide a framework within which the Group's capital base is managed and, in particular, the policies on dividends (as a percentage of long-term sustainable earnings) and share buy-back are decided. The key objective of the financing principles is to appropriately balance the interests of equity and debt holders in driving an efficient financing mix for the Group. The Group's average cost of debt in 2020 is 3.6% (2019: 3.3%).

The Group manages its financial risks in line with the classification of its financial assets and liabilities in the Group's balance sheet and related notes. The Group's management of specific risks is dealt with as follows:

Liquidity risk

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 has a target 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 year was 16.4% (2019: 18.6%).

It is Group policy that short-term sources of funds (including drawings under both the Group US\$4 billion US commercial paper (US CP) programme) and the Group £3 billion euro commercial paper (ECP) programme are backed by undrawn committed lines of credit and cash. Commercial paper is issued by B.A.T. International Finance p.l.c., B.A.T. Netherlands Finance B.V. and B.A.T. Capital Corporation and guaranteed by British American Tobacco p.l.c.. At 31 December 2020, commercial paper of £nil was outstanding (2019: £1,056 million).

The Group utilises cash pooling and zero balancing bank account structures in addition to intercompany loans and borrowings to mobilise cash efficiently within the Group. The key objectives of Treasury in respect of cash and cash equivalents are to protect their principal value, to concentrate cash at the centre, to minimise the required debt issuance and to optimise the yield earned. The amount of debt issued by the Group is determined by forecasting the net debt requirement after the mobilisation of cash.

The Group continues to target a solid investment-grade credit rating. In January 2017, Moody's and S&P revised the Group's rating to Baa2 and BBB+ with stable outlook, respectively, following the announcement of the Reynolds American acquisition. The Group's strategy is to continue deleveraging and is seeking to recover to Baa1/BBB+ in the medium term. The Group is confident of its continued ability to successfully access the debt capital markets for future refinancing requirements.

As part of its short-term cash management, the Group invests in a range of cash and cash equivalents, including money market funds, which are regarded as highly liquid and are not exposed to significant changes in fair value. These are kept under continuous review as described in the credit risk section below. At 31 December 2020, the Group does not have any investments in money market funds (2019: £nil).

As part of its working capital management, in certain countries, the Group has entered into factoring arrangements and supply chain financing arrangements. These are explained in further detail in note 13 and note 21.

Subsidiary companies are funded by share capital and retained earnings, loans from the central finance companies on commercial terms, or through local borrowings by the subsidiaries in appropriate currencies to predominantly fund short-to-medium term working capital requirements.

In March 2020, the Group refinanced 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 (£3 billion of this tranche remains available until March 2025). As at 31 December 2020, the facility remains undrawn.

In March and April 2020, the Group arranged short-term bilateral facilities with core relationship banks for a total amount of approximately £4.8 billion, strengthening the Group's liquidity position and further mitigating liquidity risks during the COVID-19 crisis. The bilateral facilities have since been reduced to a total amount of approximately £3.4 billion. At 31 December 2020, these facilities were undrawn.

In April 2020, the Group accessed the US dollar market under its SEC Shelf Programme, raising a total of US\$2.4 billion across three tranches. Additionally, the Group accessed the European market under its EMTN Programme, raising a total of €1.7 billion across two tranches.

In May and June 2020, the Group repaid US\$750 million and US\$770.8 million bonds at maturity, respectively. Additionally, in June 2020, the Group raised £500 million in the Sterling market under its EMTN Programme.

In July 2020, the Group repaid a €600 million bond and a £1.9 billion term loan at maturity, and in August 2020, the Group repaid a US\$1 billion bond at maturity.

In September 2020, the Group accessed the US dollar market under its SEC Shelf programme, raising a total of US\$6.25 billion across five tranches. The Group also made a tender offer to repurchase portions of seven series of bonds prior to their maturities. The tender offer was completed in October 2020, totalling US\$3.2 billion under five series of bonds, £70 million and €100 million under two separate series of bonds, all of which would have otherwise matured in 2021 and 2022.

In October 2020, the Group exercised the make whole redemption provision to fully redeem the remaining amounts outstanding following the tender offer on three series of bonds that would have otherwise matured in 2022. In November 2020, the balance outstanding on these bonds was repurchased, totalling US\$597.6 million.



22 Financial Instruments and Risk Management Continued

Subsequent to the balance sheet date, at the end of February 2021, the Group anticipates repaying a €650 million bond at maturity.

In March and June 2019, the Group repaid €820 million and US\$750 million bonds at maturity, respectively.

In July 2019, the Group extended the £3 billion tranche of its £6 billion revolving credit facility for a further 364 days with a one-year term-out option. At 31 December 2019, the facility was undrawn (2018: the facility was undrawn).

In July 2019, the Group also arranged short-term bilateral facilities with some of its core banks for a total amount of £745 million.

Additionally, the Group filed its inaugural SEC shelf programme in July 2019. The SEC shelf programme together with the EMTN programme, will be the basis for future normal issuances in the capital markets.

The Group accessed the US dollar bond market through the SEC shelf programme in September 2019, successfully raising US\$3.5 billion across four tranches.

In September 2019, the Group repaid a US\$650 million bond at maturity.

As part of the liquidity management strategy, the Group redeemed prior to their maturity a US\$2.25 billion bond in September 2019 and a US\$1.25 billion bond in November 2019, that would have otherwise matured in 2020.

In December 2019, the Group repaid a £500 million bond at maturity.

Currency risk

The Group is subject to exposure on the translation of the net assets of foreign currency subsidiaries and associates into its reporting currency, sterling. The Group's primary balance sheet translation exposures are to the US dollar, Canadian dollar, euro, Danish krone, Swiss franc, South African rand, Russian rouble, Brazilian real, Australian dollar, Malaysian ringgit, Singaporean dollar and Indian rupee. These exposures are kept under continuous review. The Group's policy on borrowings is to broadly match the currency of these borrowings with the currency of cash flows arising from the Group's underlying operations. Within this overall policy, the Group aims to minimise all balance sheet translation exposure where it is practicable and cost-effective to do so through matching currency assets with currency borrowings. The main objective of these policies is to protect shareholder value by increasing certainty and minimising volatility in earnings per share. At 31 December 2020, the currency profile of the Group's gross debt, after taking into account derivative contracts, was 63% US dollar (2019: 59%), 13% euro (2019: 13%), 19% sterling (2019: 21%) and 5% other currencies (2019: 7% other currencies).

The Group faces currency exposures arising from the translation of profits earned in foreign currency subsidiaries and associates and joint arrangements; these exposures are not normally hedged. Exposures also arise from:

- (i) foreign currency denominated trading transactions undertaken by subsidiaries. These exposures comprise committed and highly probable forecast sales and purchases, which are offset wherever possible. The remaining exposures are hedged within the Treasury policies and procedures with forward foreign exchange contracts and options, which are designated as hedges of the foreign exchange risk of the identified future transactions; and
- (ii) forecast dividend flows from subsidiaries to the centre. To ensure cash flow certainty, the Group enters into forward foreign exchange contracts which are designated as net investment hedges of the foreign exchange risk arising from the investments in these subsidiaries.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in other comprehensive income of hypothetical changes of exchange rates in respect of non-functional currency financial assets and liabilities held across the Group. All other variables are held constant although, in practice, market rates rarely change in isolation. Financial assets and liabilities held in the functional currency of the Group's subsidiaries, as well as non-financial assets and liabilities and translation risk, are not included in the analysis. The Group considers a 10% strengthening or weakening of the functional currency against the non-functional currency of its subsidiaries as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year-end, unless this is unrepresentative of the position during the year.

A 10% strengthening of functional currencies against non-functional currencies would result in pre-tax profit being £61 million lower (2019: £16 million lower; 2018: £33 million higher) and items recognised directly in other comprehensive income being £57 million higher (2019: £22 million lower; 2018: £384 million higher). A 10% weakening of functional currencies against non-functional currencies would result in pre-tax profit being £74 million higher (2019: £20 million higher; 2018: £41 million lower) and items recognised directly in other comprehensive income being £70 million lower (2019: £27 million higher; 2018: £469 million lower).

The exchange sensitivities on items recognised directly in other comprehensive income relate to hedging of certain net asset currency positions in the Group, as well as on cash flow hedges in respect of future transactions, but do not include sensitivities in respect of exchange on non-financial assets or liabilities.



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22 Financial Instruments and Risk Management Continued

Interest rate risk

The objectives of the Group's interest rate risk management policy are to lessen the impact of adverse interest rate movements on the earnings, cash flow and economic value of the Group. Additional objectives are to minimise the cost of hedging and the associated counterparty risk.

During 2020, the Group financial covenant being gross interest cover was removed from the centrally managed banking facilities.

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) as a result of regular reviews of market conditions and strategy by the Corporate Finance Committee and the board of the main central finance company. At 31 December 2020, the relevant ratios of floating to fixed rate borrowings were 7:93 (2019: 18:82) on a net basis. Underlying borrowings are arranged on both a fixed rate and a floating rate basis and, where appropriate, the Group uses derivatives, primarily interest rate swaps to vary the fixed and floating mix, or forward starting swaps to manage the refinancing risk. The interest rate profile of liquid assets is taken into account in determining the net interest rate exposure.

IFRS 7 requires a sensitivity analysis that shows the impact on the income statement and on items recognised directly in other comprehensive income of hypothetical changes of interest rates in respect of financial assets and liabilities of the Group. All other variables are held constant, although, in practice, market rates rarely change in isolation. For the purposes of this sensitivity analysis, financial assets and liabilities with fixed interest rates are not included. The Group considers a 100 basis point change in interest rates a reasonably possible change except where rates are less than 100 basis points. In these instances it is assumed that the interest rates increase by 100 basis points and decrease to zero for the purpose of performing the sensitivity analysis. The impact is calculated with reference to the financial asset or liability held as at the year-end, unless this is unrepresentative of the position during the year.

A 100 basis point increase in interest rates would result in pre-tax profit being £31 million lower (2019: £143 million lower; 2018: £90 million lower). A 100 basis point decrease in interest rates, or less where applicable, would result in pre-tax profit being £29 million higher (2019: £108 million higher; 2018: £74 million higher). The effect of these interest rate changes on items recognised directly in other comprehensive income is not material in either year.

In accordance with the UK Financial Conduct Authority's announcement on 27 July 2017, LIBOR and other benchmark rates are expected to be discontinued after 2021. The Group has early adopted the Phase 2 Amendments to IFRS 9 *Financial Instruments* in respect of disclosures and other accounting matters relating to Interest Rate Benchmark Reform.

As at 31 December 2020, the Group has floating rate borrowings with nominal value of £1,929 million and US\$750 million (£549 million) that are due to mature in January 2022 and August 2022 respectively. The Group assessed the impact on these borrowings consequent to Interest Rate Benchmark Reform and concluded that they are not significant.

Additionally, the Group has a total of nine derivatives (five interest rate swaps and four cross-currency interest rate swaps) that may be impacted by Interest rate Benchmark Reform of which two are free standing derivatives maturing in January 2023 and seven derivatives which are in a fair value hedge relationship that are maturing in June 2022 and October 2023. The Group believes that the hedge relationships on these derivatives will continue with the resulting ineffectiveness likely to be immaterial.

The Group's syndicated revolving credit facility (undrawn at 31 December 2020) has references to USD LIBOR, EURIBOR and GBP LIBOR. This facility includes market standard LIBOR replacement language. Following 1 June 2021, the agreement will adopt SOFR and SONIA as the alternative benchmark rates in respect of USD LIBOR and GBP LIBOR, respectively.

In January 2021, the Group confirmed adherence to the ISDA 2020 IBOR Fallbacks Protocol as published by the International Swaps and Derivatives Association, Inc. (ISDA) on 23 October 2020 (the Protocol), ensuring that appropriate fallback rates can apply to derivatives in the event of LIBOR discontinuation.

The Group believes that any outstanding contracts on 1 January 2022 with interest rates based on LIBOR benchmarks will adequately provide for alternate calculations of interest in the event that they are unavailable.

Credit risk

The Group has no significant concentrations of customer credit risk. Subsidiaries have policies in place requiring appropriate credit checks on potential customers before sales commence. The process for monitoring and managing credit risk once sales to customers have been made varies depending on local practice in the countries concerned.

Certain territories have bank guarantees, other guarantees or credit insurance provided in the Group's favour in respect of Group trade receivables, the issuance and terms of which are dependent on local practices in the countries concerned. All derivatives are subject to ISDA agreements or equivalent documentation.

Cash deposits and other financial instruments give rise to credit risk on the amounts due from the related counterparties. Generally, the Group aims to transact with counterparties with strong investment grade credit ratings. However, the Group recognises that due to the need to operate over a large geographic footprint, this will not always be possible. Counterparty credit risk is managed on a global basis by limiting the aggregate amount and duration of exposure to any one counterparty, taking into account its credit rating. The credit ratings of all counterparties are reviewed regularly.

The Group ensures that it has sufficient counterparty credit capacity of requisite quality to undertake all anticipated transactions throughout its geographic footprint, while at the same time ensuring that there is no geographic concentration in the location of counterparties.

With the following exceptions, the maximum exposure to the credit risk of financial assets at the balance sheet date is reflected by the carrying values included in the Group's balance sheet. The Group has entered into short-term risk participation agreements in relation to certain leaf supply arrangements and the maximum exposure under these would be £88 million (2019: £54 million). In addition, the Group has entered into guarantee arrangements to support short-term bank credit facilities with certain distribution and supply chain partners. The maximum exposure under the arrangements would be £36 million (2019: £54 million).



22 Financial Instruments and Risk Management Continued

Price risk

The Group is exposed to price risk on investments held by the Group, which are included in investments held at fair value on the consolidated balance sheet, but the quantum of such is not material.

Hedge accounting

In order to qualify for hedge accounting, the Group is required to document prospectively the economic relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate an assessment of the economic relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is repeated periodically to ensure that the hedge has remained, and is expected to remain, highly effective. The prospective effectiveness testing determines that an economic relationship between the hedged item and the hedging instrument exists.

In accordance with the Group Treasury Policy, the exact hedge ratios and profile of a hedge relationship will depend on several factors, including the desired degree of certainty and reduced volatility of net interest costs and market conditions, trends and expectations in the relevant markets. The sources of ineffectiveness include spot and forward differences, impact of time value and timing differences between periods in the hedged item and hedging instrument.

The Group's risk management strategy has been explained in further detail under the interest rate risk and currency risk sections of this note.

Fair value estimation

The fair values of financial assets and liabilities with maturities of less than one year, other than derivatives, are assumed to approximate their book values. For other financial instruments which are measured at fair value in the balance sheet, the basis for fair values is described below.

Fair value hierarchy

The following table presents the Group's financial assets and liabilities that are measured at fair value in accordance with IFRS 13 classification hierarchy:

	2020				2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets at fair value								
Investment held at fair value (note 14)	171	–	93	264	78	–	57	135
Derivatives relating to								
– interest rate swaps (note 15)	–	65	–	65	–	180	–	180
– cross-currency swaps (note 15)	–	444	–	444	–	305	–	305
– forward foreign currency contracts (note 15)	–	288	–	288	–	280	–	280
Assets at fair value	171	797	93	1,061	78	765	57	900
Liabilities at fair value								
Derivatives relating to								
– interest rate swaps (note 15)	–	53	–	53	–	255	–	255
– cross-currency swaps (note 15)	–	–	–	–	–	84	–	84
– forward foreign currency contracts (note 15)	–	266	–	266	–	129	–	129
Liabilities at fair value	–	319	–	319	–	468	–	468

Level 2 financial instruments are not traded in an active market, but the fair values are based on quoted market prices, broker/dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments include OTC derivatives.



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22 Financial Instruments and Risk Management Continued

Netting arrangements of derivative financial instruments

The gross fair value of derivative financial instruments as presented in the Group balance sheet, together with the Group's rights of offset associated with recognised financial assets and recognised financial liabilities subject to enforceable master netting arrangements and similar agreements, is summarised as follows:

	2020			2019		
	Amount presented in the Group balance sheet* £m	Related amounts not offset in the Group balance sheet £m	Net amount £m	Amount presented in the Group balance sheet* £m	Related amounts not offset in the Group balance sheet £m	Net amount £m
Financial assets						
– Derivative financial instruments (note 15)	797	(237)	560	765	(291)	474
Financial liabilities						
– Derivative financial instruments (note 15)	(319)	237	(82)	(468)	291	(177)
	478	–	478	297	–	297

* No financial instruments have been offset in the Group balance sheet.

The Group is subject to master netting arrangements in force with financial counterparties with whom the Group trades derivatives.

The master netting arrangements determine the proceedings should either party default on their obligations. In case of any event of default: the non-defaulting party will calculate the sum of the replacement cost of outstanding transactions and amounts owed to it by the defaulting party. If that sum exceeds the amounts owed to the defaulting party, the defaulting party will pay the balance to the non-defaulting party. If the sum is less than the amounts owed to the defaulting party, the non-defaulting party will pay the balance to the defaulting party.

The hedged items by risk category are presented below:

	2020				
	Carrying amount of the hedged item £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item £m	Line item in the statement of financial position where the hedged item is included	Changes in fair value used for calculating hedge ineffectiveness £m	Cash flow hedge reserve (gross of tax) £m
Fair value hedges					
Interest rate risk					
– borrowings (liabilities)	5,356	173	Borrowings	(57)	
Cash flow hedges					
Interest rate risk					
– borrowings (liabilities)	2,816		Borrowings	155	(628)

22 Financial Instruments and Risk Management Continued

2019

	Carrying amount of the hedged item £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item £m	Line item in the statement of financial position where the hedged item is included	Changes in fair value used for calculating hedge ineffectiveness £m	Cash flow hedge reserve (gross of tax) £m
Fair value hedges					
Interest rate risk					
– borrowings (liabilities)	5,136	210	Borrowings	(9)	
Cash flow hedges					
Interest rate risk					
– borrowings (liabilities)	4,013		Borrowings	163	(308)
– derivative financial instruments (assets)*	2		Derivative financial instruments	–	–
– derivative financial instruments (liabilities)*	(49)		Derivative financial instruments	1	(1)

* In 2019, the carrying value reported for derivative financial instruments represents the aggregated exposure as at the balance sheet date. For assets, the gross nominal value amounted to £226 million and for liabilities, the gross nominal value amounted to £932 million.

£392 million (2019: £372 million) of the Group's borrowings are designated as net investment hedge instruments of the Group's net investments in foreign operations. In line with the Group's risk management policies, the net investment hedge relationships are reviewed periodically. A number of these relationships had matured in 2019. The change in the value used for calculating hedge ineffectiveness for hedged items designated under net investment hedge relationships is £21 million (2019: £22 million).

As at 31 December 2020, the total balance of the cash flow hedge reserve was a loss of £504 million (2019: loss of £346 million) including a loss of £628 million (2019: loss of £309 million) in relation to interest rate exposure and foreign currency exposure arising from borrowings held by the Group, £nil (2019: loss of £160 million) in relation to interest rate exposure on forecasted borrowings, and a gain of £139 million (2019: gain of £105 million) in relation to deferred tax arising from cash flow hedges. The remainder related to the Group's foreign currency exposure on forecasted transactions, and cost of hedging (note 18(c)(ii)).

23 Business Combinations, Disposals and Other Changes in the Group

(a) Acquisitions

The Group acquired certain businesses and other tobacco assets as noted below. The financial impact of these transactions to the Group were immaterial individually and in aggregate. Except as noted, there were no material differences between the fair value and book values of net assets acquired in business combinations.

On 12 November 2020, the Group acquired 100% of the share capital in **Eastern Tobacco Company for Trading**, formerly known as Rafique Mohammed Sudki Jad Establishment for Trading when acting as BAT's distributor in Saudi Arabia (KSA), for £50 million (SAR 246 million). Goodwill of £36 million, representing anticipated synergies, and trademarks and similar intangibles of £39 million, as well as £96 million of cash and cash equivalents, were recognised on acquisition. The transaction is expected to enable the Group to take ownership of its route to market in KSA.

On 21 December 2017, the Group signed an agreement to acquire 100% of the share capital of **Twisp Proprietary Limited**, a South African e-cigarette/nicotine vapour company with a market share of circa 70% within South Africa and a leading presence in shopping malls via its branded kiosks outlets. Completion of the proposed acquisition was conditional upon South African anti-trust clearance, which was given in the second half of 2019 and BAT acquired control on 30 September 2019 for a purchase price of £25 million of which £6 million is deferred and contingent upon future performance in the market. Goodwill of £12 million, representing a strategic premium to enter this segment of the South African vapour market, and trademarks and similar intangibles of £15 million were recognised on acquisition. Due to difficult trading conditions, the goodwill was fully impaired in 2020 and deferred consideration adjusted by £3 million.

On 8 April 2019, the Group via its US subsidiary R.J. Reynolds Vapor Company (RJR Vapor), acquired a 45% stake in **VapeWild Holdings LLC**, a vertically integrated vapour manufacturer and retailer with 13 branded vape shops and an e-commerce platform focused on its own branded liquids, for US\$40 million. This was followed by a further acquisition of 15% on 24 June 2019 for US\$8 million, giving the Group a 60% interest in the target for US\$48 million (£36 million). The Group has accounted for these investments as a single transaction and has consolidated VapeWild as a subsidiary from the date of the first investment. Goodwill of £11 million, representing a strategic premium to enter this segment of the US vapour market, and trademarks and similar intangibles of £39 million were recognised on acquisition. Following the announcements with regards to flavours in vapour in the US, goodwill was impaired in full in 2019. The business was subsequently discontinued and liquidation proceedings commenced in December 2020.



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23 Business Combinations, Disposals and Other Changes in the Group Continued

On 22 November 2018, the Group completed the acquisition of **Quantus Beteiligungs-und Beratungsgesellschaft mbH**, Germany's leading vapour retail chain trading as 'Highendsmoke', from a private shareholder. The fair value of consideration payable was £21 million. Goodwill of £11 million, representing a strategic premium to enter the German vapour retail market, and trademarks and similar intangibles of £13 million were recognised on acquisition. As explained in note 8, at the end of 2019, acquired goodwill and intangibles were fully impaired.

On 26 September 2018, as part of an agreement to acquire an additional 44% stake in the Myanmar business, the Group acquired the business and individual assets of a local distributor, **Star Way Limited**, from IMU Enterprises Limited for £6 million. Goodwill of £3 million, representing anticipated synergies, was recognised on acquisition.

On 5 May 2017, the Group acquired certain tobacco assets, including a distribution company, **Express Logistic and Distribution EOOD** (ELD), from Bulgartabac Holding AD in Bulgaria. The assets acquired, including brands and other intangibles of £117 million, were purchased for a total consideration of £110 million, of which £28 million was contingent upon future performance in the market. £14 million of this was paid during 2018 and £13 million of this was paid during 2019. Subsequently, ELD was disposed of in 2019 at carrying value.

On 4 January 2017, the Group completed the acquisition of 100% of **Winnington Holding AB**, a Swedish manufacturer of 'white' snus, for a purchase price of £31 million. Goodwill of £8 million and brands and similar intangibles of £28 million were recognised. £8 million of the consideration was contingent on post-acquisition targets being met and was substantially settled in January 2019.

On 30 December 2015, the Group acquired 100% of the **CHIC Group** from private shareholders. The fair value of the consideration payable was £82 million, of which £30 million was contingent on achievement of certain post-acquisition targets. £6 million of this was paid during 2016, £13 million during 2017 and £1 million in final settlement in 2018.

On 17 November 2015, the Group acquired 100% of **Blue Nile Cigarette Company Limited** from a private shareholder. The fair value of the consideration payable was £45 million of which £8 million was contingent on achievement of certain post-acquisition targets. Subsequent payments in respect of this were £1 million in 2016, £5 million in 2017, £1 million in 2018 and £1 million in 2019.

On 30 September 2015, the Group acquired **TDR** and other tobacco and retail assets from Adris Grupa d.d. (Adris) for a total enterprise value of €550 million. Part of the consideration was contingent upon certain targets being met post-acquisition, and £5 million of this was paid in January 2017. In 2019, the Group reached an agreement with Adris regarding the level of contingent consideration such that any remaining amounts would not be paid by the Group and the Group received €3 million in full and final settlement of all claims between Adris and the Group. Consequently, €9 million of cash and deferred consideration was recognised as other income (note 3(e)).

(b) Non-controlling interests

In 2020, the Group made a capital contribution to **Brascuba Cigarrillos S.A.** at a cost of £17 million (2019: £20 million). This contribution was in proportion to a capital contribution made by the non-controlling interest to the company and as such, the Group's shareholding remains unchanged.

In 2018, included in the acquisition of non-controlling interests are the purchases of the remaining shares in **British American Tobacco Vranje a.d.** in Serbia and an additional 44% stake in **British American Tobacco Myanmar Limited**. The financial impact of these transactions to the Group is immaterial individually and in aggregate.

(c) Other transactions

On 20 October 2020, the Group acquired the formulations, brands, associated know-how and other relevant assets owned by **Dryft Sciences, LLC** (DSL) relating to its white nicotine pouch products for consideration of up to US\$150 million payable in accordance with the achievement of certain milestones. The transaction has been accounted for as an asset acquisition, rather than as a business combination, as the intellectual property and associated assets acquired do not represent an integrated set of activities required by IFRS for business combination accounting. Consequently, the consideration payable has been assigned to the acquired assets by relative fair value.

During 2020, the Group increased its ownership of a wholesale producer and distributor operating in the agriculture sector based in Uzbekistan, **FE "Samfruit" JSC** to 38.63%, for £5 million.

On 10 January 2019, the Group acquired a minority stake in **AYR Limited**, a vapour technology company based in the UK, for £8 million, with the potential to increase this in the future. The investment terms also provide for the Group and AYR to agree a commercial collaboration agreement under which the Group and AYR will jointly develop future vaping products.



24 Share-Based Payments

The Group operates a number of share-based payment arrangements of which the two principal ones are:

Long-Term Incentive Plan (LTIP)

Awards granted in 2020 under the Long-Term Incentive Plan are the Performance Share Plan and the Restricted Share Plan with the following conditions:

Performance Share Plan (PSP): nil-cost options released three years from date of grant. Payout is subject to performance conditions based on earnings per share (40% of grant), operating cash flow (20% of grant), total shareholder return (20% of grant) and net turnover (20% of grant) in 2020, 2019 and 2018. Total shareholder return combines the share price and dividend performance of the Company by reference to one comparator group. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled PSP awards are granted in March each year.

Restricted Share Plan (RSP): Nil-cost options released three years from date of grant and may be subject to forfeit if a participant leaves employment before the end of the three-year holding period. Participants are not entitled to dividends prior to the exercise of the options. A cash equivalent dividend accrues through the vesting period and is paid on vesting. Both equity and cash-settled RSP awards were granted in March.

Awards granted in 2018 and 2019 are nil-cost options exercisable after three years from date of grant with a contractual life of 10 years. The performance conditions and the dividend entitlement attached to these awards are identical to the PSP award mentioned above. Both equity and cash-settled LTIP awards were granted in March.

Following the acquisition of Reynolds American on 25 July 2017, underlying Reynolds American shares for LTIPs were replaced with BAT American Depositary Shares (ADS). LTIP awards for ADSs are measured against the performance conditions of Reynolds American at the maximum of 150% at the vesting date. Equity-settled LTIPs were granted by Reynolds American in March each year with options exercisable after three years from the date of grant with the payment made no later than 90 days from date of vesting. Participants are not entitled to dividends prior to exercise of the options.

Deferred Share Bonus Scheme (DSBS)

Free ordinary shares released three years from date of grant and may be subject to forfeit if a participant leaves employment before the end of the three-year holding period. Participants receive a separate payment equivalent to a proportion of the dividend payment during the holding period. Both equity and cash-settled deferred shares are granted in March each year.

The Group also has a number of other arrangements which are not material for the Group and these are as follows:

Sharesave Scheme (SAYE)

Options granted in March each year from 2011 onwards (previously November until 2009 and no options were granted during 2010) by invitation at a 20% discount to the market price. Options to this equity-settled scheme are exercisable at the end of a three-year or five-year savings contract. Participants are not entitled to dividends prior to the exercise of the options. The maximum amount that can be saved by a participant in this way is £6,000 in any tax year.

Share Reward Scheme (SRS) and International Share Reward Scheme (ISRS)

Free shares granted in April each year (maximum £3,600 in any year) under the equity-settled schemes are subject to a three-year holding period. Participants receive dividends during the holding period which are reinvested to buy further shares.

Partnership Share Scheme

Open to all eligible employees, where employees can allocate part of their pre-tax salary to purchase shares in British American Tobacco p.l.c.. The maximum amount that can be allocated in this way to any individual is £1,800 in any tax year. The shares purchased are held in a UK-based trust and are normally capable of transfer to participants tax-free after a five-year holding period.

Share-based payment expense

The amounts recognised in the income statement in respect of share-based payments were as follows:

	2020		2019		2018	
	Equity-settled £m	Cash-settled £m	Equity-settled £m	Cash-settled £m	Equity-settled £m	Cash-settled £m
LTIP (note (a))	36	–	58	1	70	–
DSBS (note (b))	44	3	50	4	44	2
Other schemes	8	–	7	–	7	–
Total recognised in the income statement (note 3(a))	88	3	115	5	121	2

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24 Share-Based Payments Continued

Share-based payment liability

The Group issues to certain employees cash-settled share-based payments that require the Group to pay the intrinsic value of these share-based payments to the employee at the date of exercise. The Group has recorded liabilities in respect of vested and unvested grants at the end of 2020 and 2019:

	2020		2019	
	Vested £m	Unvested £m	Vested £m	Unvested £m
LTIP	0.3	1.5	0.5	2.8
DSBS	0.2	5.7	0.3	6.2
Total liability	0.5	7.2	0.8	9.0

(a) Long-Term incentive Plan

Details of the movements for the equity- and cash-settled LTIP scheme during the years ended 31 December 2020 and 31 December 2019, were as follows:

	2020		2019	
	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands
Outstanding at start of year	9,193	318	6,908	306
Granted during the period	3,856	109	4,552	202
Exercised during the period	(1,590)	(63)	(1,045)	(129)
Forfeited during the period	(1,459)	(90)	(1,222)	(61)
Outstanding at end of year	10,000	274	9,193	318
Exercisable at end of year	690	27	739	25

As at 31 December 2020, the Group has 10,000,000 shares (2019: 9,193,000 shares) outstanding which includes 2,876,738 shares (2019: 2,479,057 shares) which are related to Reynolds American LTIP awards from which nil shares (2019: 43,924 shares) are exercisable at the end of the year.

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the period was £29.37 (2019: £28.31; 2018: £38.90) for equity-settled and £28.68 (2019: £30.87; 2018: £40.62) for cash-settled options.

The weighted average British American Tobacco p.l.c. share price for ADS on the New York Stock Exchange at the date of exercise for share options exercised during the period relating to equity-settled Reynolds American LTIP awards was US\$40.04 (2019: US\$36.35; 2018: US\$51.43).

The outstanding shares for the year ended 31 December 2020 had a weighted average remaining contractual life of 8.1 years (2019: 8.2 years; 2018: 8.1 years) for the equity-settled scheme, 1.72 years for Reynolds American equity-settled scheme (2019: 1.93 years; 2018: 1.91 years) and 8.1 years (2019: 8.3 years; 2018: 8.1 years) for the cash-settled share-based payment arrangements.

(b) Deferred Share Bonus Scheme

Details of the movements for the equity- and cash-settled DSBS scheme during the years ended 31 December 2020 and 31 December 2019, were as follows:

	2020		2019	
	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands	Equity-settled Number of options in thousands	Cash-settled Number of options in thousands
Outstanding at start of year	3,748	282	3,248	281
Granted during the period	1,829	109	2,097	202
Exercised during the period	(1,368)	(175)	(1,500)	(184)
Forfeited during the period	(68)	(16)	(97)	(17)
Outstanding at end of year	4,141	200	3,748	282
Exercisable at end of year	91	4	90	6

24 Share-Based Payments Continued

The weighted average British American Tobacco p.l.c. share price at the date of exercise for share options exercised during the financial year was £28.08 (2019: £28.40; 2018: £40.00) for equity-settled and £28.06 (2019: £30.06; 2018: £40.51) for cash-settled options.

The outstanding shares for the year ended 31 December 2020 had a weighted average remaining contractual life of 1.4 years (2019: 1.5 years; 2018: 1.3 years) for the equity-settled scheme and 1.4 years (2019: 1.5 years; 2018: 1.1 years) for the cash-settled scheme.

Valuation assumptions

Assumptions used in the Black-Scholes models to determine the fair value of share options at grant date were as follows:

	2020		2019	
	LTIP	DSBS	LTIP	DSBS
Expected volatility (%)	25.0	25.0	22.0	22.0
Average expected term to exercise (years)*	3.5 / 3.0	3.0	3.5	3.0
Risk-free rate (%)	0.2	0.2	0.7	0.7
Expected dividend yield (%)	7.9	7.9	6.5	6.5
Expected dividend yield (%) – Management Board	7.9	7.9	6.0	6.0
Share price at date of grant (£)	26.33	26.33	30.83	30.83
Share price at date of grant (£) – Management Board	26.33	26.33	33.28	33.28
Fair value at grant date (£)*	21.23 / 20.76	20.76	21.93	25.35
Fair value at grant date (£) – Management Board*	21.23 / 20.76	20.76	24.03	25.35

* Where two figures have been quoted for the Long Term Incentive Plan, the numbers relate to PSP and RSP awards, respectively.

Market condition features were incorporated into the Monte-Carlo models for the total shareholder return elements of the LTIP, in determining fair value at grant date. Assumptions used in these models were as follows:

	2020 LTIP (PSP)	2019 LTIP
Average share price volatility FMCG comparator group (%)	21	18
Average correlation FMCG comparator group (%)	31	28

Fair values determined from the Black-Scholes and Monte-Carlo models use assumptions revised at the end of each reporting period for cash-settled share-based payment arrangements.

The expected British American Tobacco p.l.c. share price volatility was determined taking account of the return index (the share price index plus the dividend reinvested) over a five-year period. The FMCG share price volatility and correlation was also determined over the same periods. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions, forfeiture and historical experience.

The risk-free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the yield from the last two declared dividends divided by the grant share price.

In addition to these valuation assumptions, LTIP awards, excluding RSP, contain earnings per share performance conditions. As these are non-market performance conditions they are not included in the determination of fair value of share options at the grant date, however they are used to estimate the number of awards expected to vest. This pay-out calculation is based on expectations published in analysts' forecasts.



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25 Group Employees

The average number of persons employed by the Group and its associates during the year, including Directors, was 89,182 (2019: 94,846).

	2020 Number	2019 Number
United States	4,914	5,046
APME	12,703	14,910
AMSSA	17,869	18,638
ENA	23,957	25,505
Subsidiary undertakings	59,443	64,099
Associates	29,739	30,747
	89,182	94,846

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

26 Related Party Disclosures

The Group has a number of transactions and relationships with related parties, as defined in IAS 24 *Related Party Disclosures*, all of which are undertaken in the normal course of business. Transactions with CTBAT International Limited (a joint operation) are not included in these disclosures as the results are immaterial to the Group.

Transactions and balances with associates relate mainly to the sale and purchase of cigarettes and tobacco leaf. The Group's share of dividends from associates, included in other net income in the table below, was £394 million (2019: £239 million; 2018: £211 million).

	2020 £m	2019 £m	2018 £m
Transactions			
– revenue	495	511	473
– purchases	(80)	(79)	(101)
– other net income	388	248	216
Amounts receivable at 31 December	33	42	26
Amounts payable at 31 December	(5)	(2)	(1)

During 2020, the Group made a capital contribution in Brascuba Cigarrillos S.A. at a cost of £17 million (2019: £20 million) and increased its ownership of FE "Samfruit" JSC to 38.63% for £5 million.

During 2020, there was a capital reduction in CTBAT International Limited of approximately US\$171 million with funds due to be remitted prorate to investors in 2021.

During 2019, the Group acquired 60% of VapeWild Holdings LLC and a minority stake in AYR Limited.

During 2018, the Group acquired a further 44% interest in British American Tobacco Myanmar Limited and a further 11% interest in British American Tobacco Vranje.

The key management personnel of British American Tobacco consist of the members of the Board of Directors of British American Tobacco p.l.c. and the members of the Management Board. No such person had any material interest during the year in a contract of significance (other than a service contract) with the Company or any subsidiary company. The term key management personnel in this context includes their close family members.

	2020 £m	2019 £m	2018 £m
The total compensation for key management personnel, including Directors, was:			
– salaries and other short-term employee benefits	17	26	21
– post-employment benefits	2	4	4
– share-based payments	13	23	18
	32	53	43



26 Related Party Disclosures Continued

The following table, which is not part of IAS 24 disclosures, shows the aggregate emoluments of the Directors of the Company.

	Executive Directors			Chairman			Non-Executive Directors			Total		
	2020 £'000	2019 £'000	2018 £'000	2020 £'000	2019 £'000	2018 £'000	2020 £'000	2019 £'000	2018 £'000	2020 £'000	2019 £'000	2018 £'000
Salary; fees; benefits; incentives												
– salary	2,026	2,356	2,211							2,026	2,356	2,211
– fees				714	695	680	1,028	969	1,092	1,742	1,664	1,772
– taxable benefits	744	608	427	77	137	116	72	310	303	893	1,055	846
– short-term incentives	3,274	4,791	5,031							3,274	4,791	5,031
– long-term incentives	1,294	4,420	5,300							1,294	4,420	5,300
Sub-total	7,338	12,175	12,969	791	832	796	1,100	1,279	1,395	9,229	14,286	15,160
Pension; other emoluments												
– pension	304	686	921							304	686	921
– other emoluments	20	47	50							20	47	50
Sub-total	324	733	971							324	733	971
Total emoluments	7,662	12,908	13,940	791	832	796	1,100	1,279	1,395	9,553	15,019	16,131

Aggregate gains on LTIP shares exercised in the year

	Award	Exercised LTIP shares	Exercise date	Price per share (£)	Aggregate gain (£)
Jack Bowles	27 March 2017	18,497	06 April 2020	29.62	547,881
Tadeu Marroco	27 March 2017	14,755	08 June 2020	31.23	460,799

LTIP – Value of awards 2017

	Shares	Price per share (£) ¹	Face value (£)
Jack Bowles	26,463	52.11	1,378,987
Tadeu Marroco	21,109	52.11	1,099,990

Note:

1. For information only as awards are made as nil-cost options.

Sharesave – Aggregate Gains 2020

	Award date	Shares	Exercise date	Price per share (£)	Aggregate gain (£)
Tadeu Marroco	23 March 2015	495	09 June 2020	30.26	0

Sharesave – Value of award 2015

	Shares	Price per share (£)	Face value (£)
Tadeu Marroco	495	30.26	14,979

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27 Contingent Liabilities and Financial Commitments

1. The Group is subject to contingencies pursuant to requirements that it complies with relevant laws, regulations and standards.
2. Failure to comply could result in restrictions in operations, damages, fines, increased tax, increased cost of compliance, interest charges, reputational damage or other sanctions. These matters are inherently difficult to quantify. In cases where the Group has an obligation as a result of a past event existing at the balance sheet date, if it is probable that an outflow of economic resources will be required to settle the obligation and if the amount of the obligation can be reliably estimated, a provision will be recognised based on best estimates and management judgement.
3. There are, however, contingent liabilities in respect of litigation, taxes in some countries and guarantees for which no provisions have been made.

General Litigation Overview

4. There are a number of legal and regulatory actions, proceedings and claims against Group companies related to tobacco and New Category products that are pending in a number of jurisdictions. These proceedings include, among other things, claims for personal injury (both individual claims and class actions) and claims for economic loss arising from the treatment of smoking and health-related diseases (such as medical recoupment claims brought by local governments).
5. The plaintiffs in these cases seek recovery on a variety of legal theories, including negligence, strict liability in tort, design defect, failure to warn, fraud, misrepresentation, violations of unfair and deceptive trade practices statutes, conspiracy, public nuisance, medical monitoring and violations of competition and antitrust laws. The plaintiffs seek various forms of relief, including compensatory and, where available, punitive damages, treble or multiple damages and statutory damages and penalties, creation of medical monitoring and smoking cessation funds, disgorgement of profits, attorneys' fees, and injunctive and other equitable relief.
6. Although alleged damages often are not determinable from a complaint, and the law governing the pleading and calculation of damages varies from jurisdiction to jurisdiction, compensatory and punitive damages have been specifically pleaded in a number of cases, sometimes in amounts ranging into the hundreds of millions and even hundreds of billions of sterling.
7. With the exception of the *Engle* progeny cases described below, the Group continues to win the majority of tobacco-related litigation claims that reach trial, and a very high percentage of the tobacco-related litigation claims brought against them, including *Engle* progeny cases, continue to be dismissed at or before trial. Based on their experience in tobacco-related litigation and the strength of the defences available to them in such litigation, the Group's companies believe that their successful defence of tobacco-related litigation in the past will continue in the future.
8. Group companies generally do not settle claims. However, Group companies may enter into settlement discussions in some cases, if they believe it is in their best interests to do so. Exceptions to this general approach include, but are not limited to, actions taken pursuant to 'offer of judgment' statutes and Filter Cases, as defined below. An 'offer of judgment,' if rejected by the plaintiff, preserves the Group's right to recover attorneys' fees under certain statutes in the event of a verdict favourable to the Group. Such offers are sometimes made through court-ordered mediations. Other settlements by Group companies include the State Settlement Agreements (as defined in paragraph 41 below), the funding by various tobacco companies of a US\$5.2 billion (approximately £3.8 billion) trust fund contemplated by the Master Settlement Agreement (as described in paragraph 41 below) to benefit tobacco growers, the original *Broin* flight attendant case, and most of the *Engle* progeny cases pending in US federal court, after the initial docket of over 4,000 such cases was reduced to approximately 400 cases. The Group believes that the circumstances surrounding these claims are readily distinguishable from the current categories of tobacco-related litigation claims involving Group companies.
9. Although the Group intends to defend all pending cases vigorously, and believes that the Group's companies have valid bases for appeals of adverse verdicts and valid defences to all actions, and that an outflow of resources related to any individual case is not considered probable, litigation is subject to many uncertainties, and, generally, it is not possible to predict the outcome of any particular litigation pending against Group companies, or to reasonably estimate the amount or range of any possible loss. Furthermore, a number of political, legislative, regulatory and other developments relating to the tobacco industry and cigarette smoking have received wide media attention. These developments may negatively affect the outcomes of tobacco-related legal actions and encourage the commencement of additional similar litigation. Therefore, the Group does not provide estimates of the financial effect of the contingent liabilities represented by such litigation, as such estimates are not practicable.
10. The following table lists the categories of the tobacco-related actions pending against Group companies as of 31 December 2020 and the increase or decrease from the number of cases pending against Group companies as of 31 December 2019. Details of the quantum of past judgments awarded against Group companies, the majority of which are under appeal, are also identified along with any settlements reached during the relevant period. Given the volume and more active nature of the *Engle* progeny cases and the Filter Cases in the US described below, and the fluctuation in the number of such cases and amounts awarded from year to year, the Group presents judgment or settlement figures for these cases on a three-year basis. Where no quantum is identified, either no judgment has been awarded against a Group company, or where a verdict has been reached no quantification of damages has been given, or no settlement has been entered into. Further details on the judgments, damages quantification and settlements are included within the case narratives below. For a discussion of the non-tobacco related litigation pending against the Group, see note 27, paragraph 85, et seq.



27 Contingent Liabilities and Financial Commitments Continued

Case Type	Case Numbers as at 31 December 2020	Case Numbers as at 31 December 2019 (note 1)	Change in Number Increase/(decrease)
US tobacco-related actions			
Medical reimbursement cases (note 2)	2	2	No change
Class actions (note 3)	20	19	1
Individual smoking and health cases (note 4)	189	135	54
<i>Engle</i> Progeny Cases (note 5)	1,400	1,773	(373)
<i>Broin II</i> Cases (note 6)	1,227	1,228	(1)
Filter Cases (note 7)	48	51	(3)
State Settlement Agreements – Enforcement and Validity (note 8)	4	4	No change
Non-US tobacco-related actions			
Medical reimbursement cases	19	18	1
Class actions (note 9)	12	13	(1)
Individual smoking and health cases (note 10)	68	81	(13)

(Note 1) This includes cases to which the Reynolds American Inc. (Reynolds American) group companies were a party at such date.

(Note 2) This category of cases includes the Department of Justice action. See note 27, paragraphs 20-24.

(Note 3) See note 27, paragraphs 25-38.

(Note 4) This category of cases includes smoking and health cases alleging personal injuries caused by tobacco use or exposure brought by or on behalf of individual plaintiffs based on theories of negligence, strict liability, breach of express or implied warranty and violations of state deceptive trade practices or consumer protection statutes. The plaintiffs seek to recover compensatory damages, attorneys' fees and costs and punitive damages. Out of the 189 active individual smoking and health cases, four judgments have been returned in the plaintiffs' favour, awarding damages totalling approximately US\$147 million (approximately £108 million), which are pending post-trial in trial courts or on appeal. For a further description of these cases, see note 27, paragraphs 39-40.

(Note 5) In July 1998, trial began in *Engle v. R.J. Reynolds Tobacco Co.*, a then-certified class action filed in Circuit Court, Miami-Dade County, Florida, against US cigarette manufacturers, including R. J. Reynolds Tobacco Co. (RJRT) (individually, and as successor by merger to Lorillard Tobacco Company (Lorillard Tobacco)) and Brown & Williamson Holdings, Inc. (formerly Brown & Williamson Tobacco Corporation) (B&W). In July 2000, the jury in Phase II awarded the class a total of approximately US\$145 billion (approximately £106 billion) in punitive damages, apportioned US\$36.3 billion (approximately £26.6 billion) to RJRT, US\$17.6 billion (approximately £12.9 billion) to B&W, and US\$16.3 billion (approximately £11.9 billion) to Lorillard Tobacco. This decision was appealed and ultimately resulted in the Florida Supreme Court in December 2006 decertifying the class and allowing judgments entered for only two of the three *Engle* class representatives to stand and setting aside the punitive damages award. Putative *Engle* class members were permitted to file individual lawsuits, deemed '*Engle* progeny cases', against the *Engle* defendants, within one year of the Supreme Court's decision (subsequently extended to 11 January 2008). Between the period 1 January 2018 and 31 December 2020, 33 judgments have been returned in the plaintiffs' favour, awarding damages totalling approximately US\$332.2 million (approximately £243 million). Certain of these judgments have been appealed by RJRT and in certain other cases, RJRT still had time to appeal, as of 31 December 2020. For a further description of the *Engle* progeny cases, see note 27, paragraphs 29-38 seq.

(Note 6) *Broin v. Philip Morris, Inc.* was a class action filed in Circuit Court in Miami-Dade County, Florida in 1991 and brought on behalf of flight attendants alleged to have suffered from diseases or ailments caused by exposure to Environmental Tobacco Smoke (ETS) in airplane cabins. Group companies and other cigarette manufacturer defendants settled *Broin*, agreeing to pay a total of US\$300 million (approximately £219.5 million) to fund research on the detection and cure of tobacco-related diseases and US\$49 million (approximately £35.8 million) in plaintiffs' counsel's fees and expenses. Group companies' share of these payments totalled US\$174 million (approximately £127.3 million). *Broin II* cases refer to individual cases by class members. There have been no *Broin II* trials since 2007. For a further description of the *Broin II* cases, see note 16 to paragraph 40.

(Note 7) Includes claims brought against Lorillard Tobacco and Lorillard Inc. by individuals who seek damages resulting from their alleged exposure to asbestos fibres that were incorporated into filter material used in one brand of cigarettes manufactured by a predecessor to Lorillard Tobacco for a limited period of time ending more than 50 years ago. Since 1 January 2018, Lorillard Tobacco and RJRT have paid, or have reached agreement to pay, a total of approximately US\$31.3 million (approximately £22.9 million) in settlements to resolve 124 Filter Cases. See note 17 to paragraph 40.

(Note 8) Group companies' expenses and payments under the State Settlement Agreements for 2020 amounted to approximately US\$3.6 billion (approximately £2.6 billion) in respect of settlement expenses and US\$2.9 billion (approximately £2.1 billion) in respect of settlement cash payments. See note 27, paragraph 43. The pending cases referred to above relate to the enforcement, validity or interpretation of the State Settlement Agreements in which RJRT, B&W or Lorillard Tobacco is a party. See note 27, paragraphs 41-53.



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27 Contingent Liabilities and Financial Commitments Continued

(Note 9) Outside the United States, there are 12 class actions being brought against Group companies as of 31 December 2020. These include class actions in the following jurisdictions: Canada (11) and Venezuela (1). For a description of the Group companies' class actions, see note 27, paragraphs 70-83. Pursuant to the judgment in 2015 in the two Quebec class actions, the plaintiffs were awarded damages and interest in the amount of CAD\$15.6 billion, most of which were on a joint and several basis (approximately £8.9 billion), of which the Group companies' share was CAD\$10.4 billion (approximately £5.9 billion). On 1 March 2019, the Quebec Court of Appeal handed down a judgment which largely upheld and endorsed the lower court's previous decision in the Quebec Class Actions, as further described below. The share of the judgment for Imperial Tobacco Canada Limited (Imperial), the Group's operating company in Canada, was reduced to approximately CAD\$9.2 billion (approximately £5.3 billion). For a further description of the Quebec Class Actions, see paragraph 78. All of the class actions in Canada are currently stayed pursuant to a court order. See paragraph 58.

(Note 10) As at 31 December 2020, the jurisdictions with the most active individual cases against Group companies were, in descending order: Brazil (31), Italy (14), Chile (8), Canada (6), Argentina (5) and Ireland (2). There were a further two jurisdictions with one active case only. Out of these 68 cases, in 2020, one case in Argentina (Baldassare) returned a first instance judgment on 28 December 2020, in the amount of ARS 685,976 (approximately £6,000) in compensatory damages and ARS 2,500,000 (approximately £22,000) in punitive damages (plus interest), which judgment is subject to appeal, in the plaintiffs' favour as of 31 December 2020.

11. Certain terms and phrases used in this note 27 may require some explanation.

- a. 'Judgment' or 'final judgment' refers to the final decision of the court resolving the dispute and determining the rights and obligations of the parties. At the trial court level, for example, a final judgment generally is entered by the court after a jury verdict and after post-verdict motions have been decided. In most cases, the losing party can appeal a verdict only after a final judgment has been entered by the trial court.
- b. 'Damages' refers to the amount of money sought by a plaintiff in a complaint, or awarded to a party by a jury or, in some cases, by a judge. 'Compensatory damages' are awarded to compensate the prevailing party for actual losses suffered, if liability is proved. In cases in which there is a finding that a defendant has acted wilfully, maliciously or fraudulently, generally based on a higher burden of proof than is required for a finding of liability for compensatory damages, a plaintiff also may be awarded 'punitive damages'. Although damages may be awarded at the trial court stage, a losing party may be protected from paying any damages until all appellate avenues have been exhausted by posting a supersedeas bond. The amount of such a bond is governed by the law of the relevant jurisdiction and generally is set at the amount of damages plus some measure of statutory interest, modified at the discretion of the appropriate court or subject to limits set by a court or statute.

- c. 'Settlement' refers to certain types of cases in which cigarette manufacturers, including RJRT, B&W and Lorillard Tobacco, have agreed to resolve disputes with certain plaintiffs without resolving the cases through trial.
- d. All sums set out in note 27 have been converted to GBP and US\$ using the following end closing rates as at 31 December 2020: GBP 1 to US\$ 1.3670, GBP 1 to CAD\$ 1.7415, GBP 1 to EURO 1.1172, GBP 1 to BRL 7.1002, GBP 1 to AOA 895.4418, GBP 1 to NGN 539.6035, GBP 1 to KRW 1484.92, GBP 1 to HRK 8.4326, GBP 1 to JPY 141.1308, GBP 1 to QAR 4.9770 and GBP 1 to SAR 5.128.

US Tobacco Litigation

12. Group companies, notably RJRT (individually and as successor by merger to Lorillard Tobacco) and B&W as well as other leading cigarette manufacturers, are defendants in a number of product liability cases. In a number of these cases, the amounts of compensatory and punitive damages sought are significant.
13. The total number of US tobacco product liability cases pending at 31 December 2020 involving RJRT, B&W and/or Lorillard Tobacco was approximately 2,901. As at 31 December 2020, British American Tobacco (Investments) Limited (Investments) has been served as a co-defendant in one of those cases (2018:1). No other UK-based Group company has been served as a co-defendant in any US tobacco product liability case pending as at 31 December 2020.
14. Since many of these pending cases seek unspecified damages, it is not possible to quantify the total amounts being claimed, but the aggregate amounts involved in such litigation are significant, possibly totalling billions of US dollars. The cases fall into four broad categories: medical reimbursement cases; class actions; individual cases and other claims.
15. RJRT (individually and as successor by merger to Lorillard Tobacco), American Snuff Co., Santa Fe Natural Tobacco Company, Inc. (SFNTC), R.J. Reynolds Vapor Company (RJR Vapor), Reynolds American, Lorillard Inc., other Reynolds American affiliates and indemnitees, including but not limited to B&W (collectively, the Reynolds Defendants), believe that they have valid defences to the tobacco-related litigation claims against them, as well as valid bases for appeal of adverse verdicts against them. The Reynolds Defendants have, through their counsel, filed pleadings and memoranda in pending tobacco-related litigation that set forth and discuss a number of grounds and defences that they and their counsel believe have a valid basis in law and fact.
16. Scheduled trials. Trial schedules are subject to change, and many cases are dismissed before trial. In the US, there are 30 cases, exclusive of *Engle* progeny cases, scheduled for trial as of 31 December 2020 through 31 December 2021, for the Reynolds Defendants: 19 individual smoking and health cases, 10 Filter Cases and one non-smoking and health case. There are also approximately 112 *Engle* progeny cases against RJRT (individually and as successor to Lorillard Tobacco) and B&W scheduled for trial through 31 December 2021. It is not known how many of these cases will actually be tried.



27 Contingent Liabilities and Financial Commitments Continued

17. Trial results. From 1 January 2018 through 31 December 2020, 83 trials occurred in individual smoking and health, *Engle* progeny, and Filter Cases in which the Reynolds Defendants were defendants, including 10 where mistrials were declared. Verdicts in favour of the Reynolds Defendants and, in some cases, other defendants, were returned in 27 cases (including one directed verdict after the jury reached an impasse in a punitive damages trial), tried in Florida (25) and Massachusetts (2). Verdicts in favour of the plaintiffs were returned in 37 cases (including one in which the jury found for the plaintiff in Phase I and the parties reached a resolution agreement prior to completion of Phase II), which were tried in Florida (32), the US Virgin Islands (2), and Massachusetts (3). Seven of the cases in Florida were dismissed during trial. Two cases were punitive damages retrials.

(a) Medical Reimbursement Cases

18. These civil actions seek to recover amounts spent by government entities and other third-party providers on healthcare and welfare costs claimed to result from illnesses associated with smoking.

19. At 31 December 2020, one US medical reimbursement suit (*Crow Creek Sioux Tribe v. American Tobacco Co.*) was pending against RJRT, B&W and Lorillard Tobacco in a Native American tribal court in South Dakota. The plaintiffs seek to recover actual and punitive damages, restitution, funding of a clinical cessation programme, funding of a corrective public education programme, and disgorgement of unjust profits from sales to minors. No other medical reimbursement suits are pending against these companies by county or other political subdivisions of the states.

US Department of Justice Action

20. On 22 September 1999, the US Department of Justice brought an action in the US District Court for the District of Columbia against various industry members, including RJRT, B&W, Lorillard Tobacco, B.A.T Industries p.l.c. (Industries) and Investments (*United States v. Philip Morris USA Inc.*). The US Department of Justice initially sought (1) recovery of federal funds expended in providing health care to smokers who developed alleged smoking-related diseases pursuant to the Medical Care Recovery Act and Medicare Secondary Payer provisions of the Social Security Act and (2) equitable relief under the civil provisions of the Racketeer Influenced and Corrupt Organizations Act (RICO), including disgorgement of roughly US\$280 billion (approximately £204.8 billion) in profits the government contended were earned as a consequence of a purported racketeering 'enterprise' along with certain 'corrective communications'. In September 2000, the district court dismissed the government's Medical Care Recovery Act and Medicare Secondary Payer claims. In February 2005, the US Court of Appeals for the DC Circuit (the DC Circuit) ruled that disgorgement was not an available remedy.

21. Industries was dismissed for lack of personal jurisdiction on 28 September 2000. In addition, Investments was a defendant at the trial, but intervening changes in controlling law post-trial led to a 28 March 2011 court ruling that the court's Final Judgment and Remedial Order no longer applied to Investments prospectively, and for this reason, Investments would not have to comply with any of the remaining injunctive remedies being sought by the government. As the government did not appeal the 28 March 2011 ruling, this means that Investments is no longer in the case and is not subject to any injunctive relief that the court is expected to order against the remaining defendants. As the case continued as against RJRT and Lorillard Tobacco with respect to injunctive relief and related matters, the following is noted.

22. The non-jury trial of the RICO portion of the claim began on 21 September 2004 and ended on 9 June 2005. On 17 August 2006, the federal district court issued its Final Judgment and Remedial Order, which found certain defendants, including RJRT, B&W, Lorillard Tobacco and Investments, had violated RICO, but did not impose any direct financial penalties. The district court instead enjoined the defendants from committing future racketeering acts, participating in certain trade organisations, making misrepresentations concerning smoking and health and youth marketing, and using certain brand descriptors such as 'low tar', 'light', 'ultra-light', 'mild' and 'natural'. The district court also ordered the defendants to issue 'corrective communications' on five subjects, including smoking and health and addiction, and to comply with further undertakings, including maintaining websites of historical corporate documents and disseminating certain marketing information on a confidential basis to the government. In addition, the district court placed restrictions on the defendants' ability to dispose of certain assets for use in the United States, unless the transferee agrees to abide by the terms of the district court's order, and ordered certain defendants to reimburse the US Department of Justice its taxable costs incurred in connection with the case.

23. Defendants, including RJRT, B&W, Lorillard Tobacco and Investments, appealed, and the US government cross-appealed to the DC Circuit. On 22 May 2009, the DC Circuit affirmed the federal district court's RICO liability judgment, but vacated the order and remanded for further factual findings and clarification as to whether liability should be imposed against B&W, based on changes in the nature of B&W's business operations (including the extent of B&W's control over tobacco operations). The court also remanded on three other discrete issues relating to the injunctive remedies, including for the district court 'to reformulate' the injunction on the use of low-tar descriptors 'to exempt foreign activities that have no substantial, direct, and foreseeable domestic effects,' and for the district court to evaluate whether corrective communications could be required at point-of-sale displays (which requirement the DC Circuit vacated). On 28 June 2010, the US Supreme Court denied the parties' petitions for further review.

24. On 22 December 2010, the district court dismissed B&W from the litigation. In November 2012, the trial court entered an order setting forth the text of the corrective statements and directed the parties to engage in discussions with the Special Master to implement them. After various proceedings and appeals, the federal district court in October 2017 ordered RJRT and the other US tobacco company defendants to fund the publishing of compelled public statements in various US media outlets, including in newspapers, on television, on the companies' websites, and in onsets on cigarette packaging. The compelled public statements in newspapers and on television were completed in 2018 and in package onsets were completed in mid-2020. Also, the compelled public statements now appear on RJRT websites. The district court is considering mandating the display of the compelled public statements at retail point of sale; an evidentiary hearing is scheduled to begin on 12 July 2021.

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Notes on Accounts

Continued

27 Contingent Liabilities and Financial Commitments Continued

(b) Class Actions

25. At 31 December 2020, RJRT, B&W and Lorillard Tobacco were named as defendants in two separate actions attempting to assert claims on behalf of classes of persons allegedly injured or financially impacted by their smoking, and SFNTC was named in 17 separate cases relating to the use of the words 'natural,' '100% additive-free,' or 'organic' in Natural American Spirit advertising and promotional materials. If the classes are or remain certified, separate trials may be needed to assess individual plaintiffs' damages. Among the pending class actions, 18 specified the amount of the claim in the complaint, including 17 that alleged that the plaintiffs were seeking in excess of US\$5 million (approximately £3.6 million) and one that alleged that the plaintiffs were seeking less than US\$75,000 (approximately £54,900) per class member plus unspecified punitive damages.

No Additive/Natural/Organic Claim Cases

26. A total of 17 putative class actions have been filed in nine US federal district courts against SFNTC, a subsidiary of Reynolds American, which cases generally allege, in various combinations, violations of state deceptive and unfair trade practice statutes, and claim state common law fraud, negligent misrepresentation, and unjust enrichment based on the use of descriptors such as 'natural,' 'organic' and '100% additive-free' in the marketing, labelling, advertising, and promotion of SFNTC's Natural American Spirit brand cigarettes. In these actions, the plaintiffs allege that the use of these terms suggests that Natural American Spirit brand cigarettes are less harmful than other cigarettes and, for that reason, violated state consumer protection statutes or amounted to fraud or a negligent or intentional misrepresentation. The actions seek various categories of recovery, including economic damages, injunctive relief (including medical monitoring and cessation programmes), interest, restitution, disgorgement, treble and punitive damages, and attorneys' fees and costs. In April 2016, in response to a motion by the various plaintiffs, the US Judicial Panel on Multidistrict Litigation (JPML) consolidated these cases for pre-trial purposes before a federal court in New Mexico. On 21 December 2017, that court granted the defendants' motion to dismiss in part, dismissing a number of claims with prejudice, and denied it in part. The district court conducted a five-day hearing on the motion for class certification and on the motion challenging the admissibility expert opinion testimony in December 2020. The parties filed post-hearing briefs in January 2021 and will file proposed findings of fact and conclusions of law in February 2021. A decision is expected in the second half of 2021.

Other Putative Class Actions

27. *Jones v. American Tobacco Co.* is a putative class action filed in December 1998 in the Circuit Court, Jackson County, Missouri. The action was brought by a plaintiff on behalf of a putative class of Missouri tobacco product users and purchasers against various defendants, including RJRT, B&W and Lorillard Tobacco alleging that the plaintiffs' use of the defendants' tobacco products has caused them to become addicted to nicotine, and seeking an unspecified amount of compensatory and punitive damages. There is currently no activity in this case.

28. *Young v. American Tobacco Co.* is a case filed in November 1997 in the Circuit Court, Orleans Parish, Louisiana against various US cigarette manufacturers, including RJRT and B&W, and parent companies of such manufacturers. This putative ETS class action was brought on behalf of a putative class of Louisiana residents who, though not themselves cigarette smokers, have been exposed to second-hand smoke from cigarettes manufactured by the defendants, and who allegedly suffered injury as a result of that exposure, and seeks an unspecified amount of compensatory and punitive damages. In March 2016, the court entered an order staying the case, including all discovery, pending the completion of an ongoing smoking cessation programme ordered by the court in a now-concluded Louisiana state court certified class action, *Scott v. American Tobacco Co.*

Engle Class Action and Engle Progeny Cases (Florida)

29. In July 1998, trial began in *Engle v. R. J. Reynolds Tobacco Co.*, a then-certified class action filed in Circuit Court, Miami-Dade County, Florida, against US cigarette manufacturers, including RJRT, B&W and Lorillard Tobacco. The then-certified class consisted of Florida citizens and residents, and their survivors, who suffered from smoking-related diseases that first manifested between 5 May 1990, and 21 November 1996, and were caused by an addiction to cigarettes. In July 1999, the jury in this Phase I found against RJRT, B&W, Lorillard Tobacco and the other defendants on common issues relating to the defendants' conduct, general causation, the addictiveness of cigarettes, and entitlement to punitive damages.

30. In July 2000, the jury in Phase II awarded the class a total of approximately US\$145 billion (approximately £106 billion) in punitive damages, apportioned US\$36.3 billion (approximately £26.6 billion) to RJRT, US\$17.6 billion (approximately £12.9 billion) to B&W, and US\$16.3 billion (approximately £11.9 billion) to Lorillard Tobacco. The three class representatives in the *Engle* class action were awarded US\$13 million (approximately £9.5 million) in compensatory damages.

31. This decision was appealed and ultimately resulted in the Florida Supreme Court in December 2006 decertifying the class and allowing judgments entered for only two of the three *Engle* class representatives to stand and setting aside the punitive damages award. The court preserved certain of the jury's Phase I findings, including that cigarettes can cause certain diseases, nicotine is addictive, and defendants placed defective cigarettes on the market, breached duties of care, concealed health-related information and conspired. Putative *Engle* class members were permitted to file individual lawsuits, deemed '*Engle* progeny cases', against the *Engle* defendants, within one year of the Supreme Court's decision (subsequently extended to 11 January 2008).

32. During 2015, RJRT and Lorillard Tobacco, together with Philip Morris USA Inc. (PM USA), settled virtually all of the *Engle* progeny cases then pending against them in federal district court. The total amount of the settlement was US\$100 million (approximately £73.2 million) divided as follows: RJRT US\$42.5 million (approximately £31.1 million); PM USA US\$42.5 million (approximately £31.1 million); and Lorillard Tobacco US\$15 million (approximately £10.9 million). The settlement covered more than 400 federal *Engle* progeny cases but did not cover 12 federal progeny cases previously tried to verdict and then pending on post-trial motions or appeal, and two federal progeny cases filed by different lawyers from the ones who negotiated the settlement for the plaintiffs.



27 Contingent Liabilities and Financial Commitments Continued

33. As at 31 December 2020, there were approximately 1,400 *Engle* progeny cases pending in which RJRT, B&W and/or Lorillard Tobacco have all been named as defendants and served. These cases include claims by or on behalf of 1,725 plaintiffs. In addition, as of 31 December 2020, RJRT was aware of seven additional *Engle* progeny cases that have been filed but not served. The number of pending cases fluctuates for a variety of reasons, including voluntary and involuntary dismissals. Voluntary dismissals include cases in which a plaintiff accepts an 'offer of judgment' from RJRT, Lorillard Tobacco and/or RJRT's affiliates and indemnitees. An offer of judgment, if rejected by the plaintiff, preserves RJRT's and Lorillard Tobacco's right to recover attorneys' fees under Florida law in the event of a verdict favourable to RJRT or Lorillard Tobacco, or affiliates of such entities. Such offers are sometimes made through court-ordered mediations.

34. 71 trials occurred in *Engle* progeny cases in Florida state and federal courts against RJRT, B&W and/or Lorillard Tobacco from 1 January 2018 through 31 December 2020, and additional state court trials are scheduled for 2021.

35. The following chart identifies the number of trials in *Engle* progeny cases as at 31 December 2020 and additional information about the adverse judgments entered:

Trials/verdicts/judgments of individual *Engle* progeny cases from 1 January 2018 through 31 December 2020:

Total number of trials	71
Number of trials resulting in plaintiffs' verdicts	33**
Total damages awarded in final judgments against RJRT	US\$332,210,000 (approximately £243 million)
Amount of overall damages comprising 'compensatory damages' (approximately)	US\$107,621,000 (of overall US\$332,210,000) (approximately £78.7 million of £243 million)
Amount of overall damages comprising 'punitive damages' (approximately)	US\$224,589,000 (of overall US\$332,210,000) (approximately £164.3 million of £243 million)

** Of the 33 trials resulting in plaintiffs' verdicts 1 January 2018 to 31 December 2020 (note 11):

Number of adverse judgments appealed by RJRT	24 (note 12)
Number of adverse judgments, in which RJRT still has time to file an appeal	0
Number of adverse judgments in which an appeal was not, and can no longer be, sought	8

Appeals of individual *Engle* progeny cases 1 January 2018 to 31 December 2020:

Number of adverse judgments appealed by RJRT	26 (note 13)
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Note 11: the 33 trials include two cases that were tried twice (*Gloger v. R.J. Reynolds Tobacco Co.* and *Bessent-Dixon v. R.J. Reynolds Tobacco Co.*) and one case (*Robert Miller v. R.J. Reynolds Tobacco Co.*) where plaintiff moved for a mistrial following a plaintiff's verdict where the jury awarded no compensatory or punitive damages, and an adverse judgment has not yet been entered.

Note 12: of the 24 adverse judgments appealed by RJRT as a result of judgments arising in the period 1 January 2018 to 31 December 2020:

- 10 appeals remain undecided in the District Courts of Appeal; and one case has been affirmed but the rehearing time is pending;
- 12 appeals were decided and/or closed in the District Court of Appeals. Of these 12 appeals, seven were affirmed in favour of plaintiff. One was reversed for a new trial, one was voluntarily dismissed and judgment paid, one was involuntarily dismissed, and one was affirmed in part, reversed in part, for additur or a new trial, one was reversed in part for reinstatement of jury's punitive damages verdict and entry of amended final judgment.

Note 13: of the 26 adverse judgments appealed by RJRT (during the period 1 January 2018 to 31 December 2020):

- 10 appeals remain undecided in the District Courts of Appeal and one case affirmed but rehearing time pending;
- 15 were decided and/or closed in the District Courts of Appeal. Of these appeals, nine were affirmed in favour of plaintiff, one was reversed for a new trial, one was voluntarily dismissed and judgment paid, one was involuntarily dismissed, one was affirmed in part, reversed in part, for additur or a new trial, one reversed in part for reinstatement of jury's punitive damages verdict and entry of amended final judgment. Note that one appeal was reversed in the Eleventh Circuit for entry of order granting Defendants' motion for judgment in accordance with the verdict; and
- does not include two cases that were appealed prior to the relevant time period but which remain pending before the Florida Supreme Court.

36. By statute, Florida applies a US\$200 million (approximately £146.3 million) bond cap to all *Engle* progeny cases in the aggregate. Individual bond caps for any given *Engle* progeny case vary depending on the number of judgments in effect at a given time. Judicial attempts by several plaintiffs in the *Engle* progeny cases to challenge the bond cap as violating the Florida Constitution have failed. In addition, bills have been introduced in sessions of the Florida legislature that would eliminate the *Engle* progeny bond cap, but those bills have not been enacted as of 31 December 2020.

37. In 2020, RJRT or Lorillard Tobacco paid judgments in eight *Engle* progeny cases. Those payments totalled US\$73.7 million (approximately £53.9 million) in compensatory or punitive damages. Additional costs were paid in respect of attorneys' fees and statutory interest.

38. In addition, accruals for damages and attorneys' fees and statutory interest for one case (*Starr-Blundell v. R. J. Reynolds Tobacco Co.*) was recorded in Reynolds American's consolidated balance sheet as of 31 December 2020 to the value of US\$69,200 (approximately £50,621).



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27 Contingent Liabilities and Financial Commitments Continued

(c) Individual Cases

39. As of 31 December 2020, 189 individual cases were pending in the United States against RJRT, B&W and/or Lorillard Tobacco. This category of cases includes smoking and health cases alleging personal injuries caused by tobacco use or exposure brought by or on behalf of individual plaintiffs based on theories of negligence, strict liability, breach of express or implied warranty, and violations of state deceptive trade practices or consumer protection statutes. The plaintiffs seek to recover compensatory damages, attorneys' fees and costs, and punitive damages. The category does not include the *Engle* progeny cases, *Broin II* cases, and Filter Cases discussed above and below. One of the individual cases is brought by or on behalf of an individual or his/her survivors alleging personal injury as a result of exposure to ETS.
40. The following chart identifies the number of individual cases pending as of 31 December 2020 as against the number pending as of 31 December 2019, along with the number of *Engle* progeny cases, *Broin II* cases, and Filter Cases, which are discussed further below.

Case Type	US Case Numbers 31 December 2020	US Case Numbers 31 December 2019	Change in Number Increase/(Decrease)
Individual Smoking and Health Cases (note 14)	189	135	54
<i>Engle</i> Progeny Cases (Number of Plaintiffs) (note 15)	1,400 (1,725)	1,773 (2,228)	(373) (503)
<i>Broin II</i> Cases (note 16)	1,227	1,228	(1)
Filter Cases (note 17)	48	51	(3)

(Note 14) Out of the 189 pending individual smoking and health cases, four have received adverse verdicts or judgments in the court of first instance or on appeal, and the total amount of those verdicts or judgments is approximately US\$147 million (approximately £108 million).

(Note 15) The number of *Engle* progeny cases will fluctuate as cases are dismissed or if any of the dismissed cases are appealed. Please see earlier table in paragraph 35.

(Note 16) *Broin v. Philip Morris, Inc.* was a class action filed in Circuit Court in Miami-Dade County, Florida in 1991 and brought on behalf of flight attendants alleged to have suffered from diseases or ailments caused by exposure to ETS in airplane cabins. In October 1997, RJRT, B&W, Lorillard Tobacco and other cigarette manufacturer defendants settled *Broin*, agreeing to pay a total of US\$300 million (approximately £220 million) in three annual US\$100 million (approximately £73 million) instalments, allocated among the companies by market share, to fund research on the early detection and cure of diseases associated with tobacco smoke. It also required those companies to pay a total of US\$49 million (approximately £36 million) for the plaintiffs' counsel's fees and expenses. RJRT's portion of these payments was approximately US\$86 million (approximately £63 million); B&W's was approximately US\$57 million (approximately £41 million); and Lorillard Tobacco's was approximately US\$31 million (approximately £23 million). The settlement agreement, among other things, limits the types of claims class members may bring and eliminates claims for punitive damages. The settlement agreement also provides that, in individual cases by class members that are referred to as *Broin II* lawsuits, the defendants will bear the burden of proof with respect to whether ETS can cause certain specifically enumerated diseases, referred to as 'general causation'. With respect to all other liability issues, including whether an individual plaintiff's disease was caused by his or her exposure to ETS in airplane cabins, referred to as 'specific causation', individual plaintiffs will bear the burden of proof. On 7 September 1999, the Florida Supreme Court approved the settlement. There have been no *Broin II* trials since 2007. There have been periodic efforts to activate cases and the Group expects this to continue over time.

(Note 17) Includes claims brought against Lorillard Tobacco and Lorillard Inc. by individuals who seek damages resulting from their alleged exposure to asbestos fibres that were incorporated into filter material used in one brand of cigarettes manufactured by a predecessor to Lorillard Tobacco for a limited period of time ending more than 50 years ago. Pursuant to the terms of a 1952 agreement between P. Lorillard Company and H&V Specialties Co., Inc. (the manufacturer of the filter material), Lorillard Tobacco is required to indemnify Hollingsworth & Vose for legal fees, expenses, judgments and resolutions in cases and claims alleging injury from finished products sold by P. Lorillard Company that contained the filter material. As of 31 December 2020, Lorillard Tobacco and/or Lorillard Inc. was a defendant in 48 Filter Cases. Since 1 January 2018, Lorillard Tobacco and RJRT have paid, or have reached agreement to pay, a total of approximately US\$31.3 million (approximately £22.8 million) in settlements to resolve 124 Filter Cases.

(d) State Settlement Agreements

41. In November 1998, the major US cigarette manufacturers, including RJRT, B&W and Lorillard Tobacco, entered into the Master Settlement Agreement (MSA) with attorneys general representing 46 US states, the District of Columbia and certain US territories and possessions. These cigarette manufacturers previously settled four other cases, brought on behalf of Mississippi, Florida, Texas and Minnesota, by separate agreements with each state (collectively and with the MSA, the 'State Settlement Agreements').
42. These State Settlement Agreements settled all health care cost recovery actions brought by, or on behalf of, the settling jurisdictions; released the defending major US cigarette manufacturers from various additional present and potential future claims; imposed future payment obligations in perpetuity on RJRT, B&W, Lorillard Tobacco and other major US cigarette manufacturers; and placed significant restrictions on their ability to market and sell cigarettes and smokeless tobacco products. In accordance with the MSA, various tobacco companies agreed to fund a US\$5.2 billion (approximately £3.8 billion) trust fund to be used to address the possible adverse economic impact of the MSA on tobacco growers.



27 Contingent Liabilities and Financial Commitments Continued

43. RJRT and SFNTC are subject to the substantial payment obligations under the State Settlement Agreements. Payments under the State Settlement Agreements are subject to various adjustments for, among other things, the volume of cigarettes sold, relative market share, operating profit and inflation. Reynolds American's operating subsidiaries' expenses and payments under the State Settlement Agreements for 2017, 2018, 2019 and 2020 and the projected expenses and payments for 2021 and 2022 onwards are set forth below (in millions of US dollars)*:

	2017	2018	2019	2020	2021	2022 and thereafter
Settlement expenses	\$2,856	\$2,741	\$2,762	\$3,572		
Settlement cash payments	\$4,612	\$917	\$2,918	\$2,848		
Projected settlement expenses					\$>3,300	\$>3,300
Projected settlement cash payments					\$>3,600	\$>3,300

* Subject to adjustments for changes in sales volume, inflation, operating profit and other factors. Payments are allocated among the companies on the basis of relative market share or other methods.

44. The State Settlement Agreements have materially adversely affected RJRT's shipment volumes. Reynolds American believes that these settlement obligations may materially adversely affect the results of operations, cash flows or financial position of Reynolds American and RJRT in future periods. The degree of the adverse impact will depend, among other things, on the rate of decline in US cigarette sales in the premium and value categories, RJRT's share of the domestic premium and value cigarette categories, and the effect of any resulting cost advantage of manufacturers not subject to the State Settlement Agreements.
45. In addition, the MSA includes an adjustment that potentially reduces the annual payment obligations of RJRT, Lorillard Tobacco and the other signatories to the MSA, known as 'Participating Manufacturers' (PMs). Certain requirements, collectively referred to as the 'Adjustment Requirements', must be satisfied before the Non-Participating Manufacturers (NPM) Adjustment for a given year is available: (i) an Independent Auditor must determine that the PMs have experienced a market share loss, beyond a triggering threshold, to those manufacturers that do not participate in the MSA (such non-participating manufacturers being referred to as NPMs); and (ii) in a binding arbitration proceeding, a firm of independent economic consultants must find that the disadvantages of the MSA were a significant factor contributing to the loss of market share. This finding is known as a significant factor determination.
46. When the Adjustment Requirements are satisfied, the MSA provides that the NPM Adjustment applies to reduce the annual payment obligation of the PMs. However, an individual settling state may avoid its share of the NPM Adjustment if it had in place and diligently enforced during the entirety of the relevant year a 'Qualifying Statute' that imposes escrow obligations on NPMs that are comparable to what the NPMs would have owed if they had joined the MSA. In such event, the state's share of the NPM Adjustment is reallocated to other settling states, if any, that did not have in place and diligently enforce a Qualifying Statute.
47. RJRT and Lorillard Tobacco are or were involved in NPM Adjustment proceedings concerning the years 2003 to 2019. In 2012, RJRT, Lorillard Tobacco, and SFNTC entered into an agreement (the Term Sheet) with certain settling states that resolved accrued and potential NPM adjustments for the years 2003 through 2012 and, as a result, RJRT and SFNTC collectively received, or are to receive, more than US\$1.1 billion (approximately £804 million) in credits that, in substantial part, were applied to MSA payments in 2014 through 2017. After an arbitration panel ruled in September 2013 that six states had not diligently enforced their qualifying statutes in the year 2003, additional states joined the Term Sheet. RJRT executed the NPM Adjustment Settlement Agreement on 25 September 2017 (which incorporated the Term Sheet). Since the NPM Adjustment Settlement Agreement was executed, an additional 10 states have joined. NPM proceedings are ongoing and could result in further reductions of the companies' MSA-related payments.
48. On 18 January 2017, the State of Florida filed a motion to join Imperial Tobacco Group, PLC (ITG) as a defendant and to enforce the Florida State Settlement Agreement, which motion sought payment under the Florida State Settlement Agreement of approximately US\$45 million (approximately £33 million) with respect to the four brands (Winston, Salem, Kool and Maverick) that were sold to ITG in the divestiture of certain assets, on 12 June 2015, by subsidiaries or affiliates of Reynolds American and Lorillard, together with the transfer of certain employees and certain liabilities, to a wholly-owned subsidiary of Imperial Brands plc (the Divestiture), referred to as the 'Acquired Brands'. The motion also claimed future annual losses of approximately US\$30 million per year (approximately £22 million) absent the court's enforcement of the Florida State Settlement Agreement. The State's motion sought, among other things, an order declaring that RJRT and ITG are in breach of the Florida Settlement Agreement and are required, jointly and severally, to make annual payments to the State under the Florida State Settlement Agreement with respect to the Acquired Brands. In addition, on 18 January 2017, PM USA filed a motion to enforce the Florida State Settlement Agreement, asserting among other things that RJRT and ITG breached that agreement by failing to make settlement payments as to the Acquired Brands, which PM USA asserts has improperly shifted settlement payment obligations to PM USA. On 27 January 2017, RJRT sought leave to file a supplemental pleading for breach by ITG of its obligations regarding joinder into the Florida State Settlement Agreement. The Florida court, on 30 March 2017, ruled that ITG should be joined into the enforcement action.

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27 Contingent Liabilities and Financial Commitments Continued

49. After a bench trial, on 27 December 2017 the court entered an order holding that RJRT (not ITG) is liable for annual settlement payments for the Acquired Brands, finding that ITG did not assume liability for annual settlement payments under the terms of the asset purchase agreement relating to the Divestiture and RJRT remained liable for payments under the Florida State Settlement Agreement as to the Acquired Brands. In January 2018, the auditor of the Florida State Settlement Agreement adjusted the final 2017 invoice for the annual payment and amended the 2015 and 2016 invoices for the respective annual payment and the net operating profit penalty for each of those years under the Florida Settlement Agreement, based on the auditor's interpretation of the court's order. The adjusted invoices reflected amounts due to both the State of Florida and PM USA. In total, the estimated additional amounts due were US\$99 million (approximately £72 million) with US\$84 million (approximately £61 million) to the State of Florida and US\$16 million (approximately £12 million) to PM USA. RJRT advised the auditor that it disputed these amounts, and therefore no further amounts were due or would be paid for those years pending the final resolution of RJRT's appeal of the court's order. On 23 January 2018, RJRT filed a notice of appeal, and on 25 January 2018, RJRT filed an amended notice of appeal, and PM USA filed a notice of appeal as to the court's ruling as to ITG. On 26 January 2018, the State moved for recovery of its attorneys' fees and costs from RJRT. The State and PM USA filed a joint motion for the entry of final judgment on 1 February 2018. The court declined to enter a final judgment until after resolution of the dispute between RJRT and PM USA regarding PM USA's assertion that settlement payment obligations have been improperly shifted to PM USA. On 15 August 2018, the court entered a final judgment in the action (the Final Judgment). As a result of the Final Judgment, PM USA's challenge to RJRT's accounting assumptions related to the Acquired Brands was rendered moot, subject to reinstatement if ITG joins the Florida State Settlement Agreement or if judgment is reversed. On 29 August 2018, RJRT filed a notice of appeal on the Final Judgment. On 7 September 2018, PM USA filed a notice of appeal with respect to the court's ruling as to ITG. On 12 September 2018, RJRT filed a motion to consolidate RJRT's appeal with the appeal filed by PM USA, which was granted on 1 October 2018. Appellate briefing was completed on 6 February 2020. Oral argument, originally scheduled for 7 April 2020, was conducted through video conference on 9 June 2020. On 29 July 2020, Florida's Fourth District Court of Appeal affirmed the Final Judgment. On 12 August 2020, RJRT filed a motion for rehearing or for certification to the Florida Supreme Court of the 29 July 2020 decision. On 10 June 2020, RJRT posted an additional bond in the amount of US\$84,102,984.75 (approximately £61.5 million), over the US\$103,694,155.08 (approximately £75.8 million) bond initially posted, to cover additional disputed amounts plus two years of statutory interest. The total amount RJRT bonded for its appeal was US\$187,797,139.83 (approximately £138 million). RJRT's motion for rehearing or certification to the Florida Supreme Court was denied on 18 September 2020 and its motion for review was denied by the Florida Supreme Court on 18 December 2020. On 5 October 2020, RJRT satisfied the Final Judgment (approximately US\$192,869,589.86 (approximately £140,000,000)) and paid approximately US\$3.1 million (approximately £2.2 million) of Florida's attorneys' fees but continues to litigate over the remaining approximately US\$300,000 (approximately £219,000) in attorneys' fees. RJRT's appellate bonds were released to RJRT by order dated 5 November 2020. RJRT will seek indemnification from ITG.
50. On 17 February 2017, ITG filed an action in the Court of Chancery of the State of Delaware seeking declaratory relief and a motion for a temporary restraining order against Reynolds American and RJRT. In its complaint, ITG asked the court to declare various matters related to its rights and obligations under the asset purchase agreement (and related documents) relating to the Divestiture. ITG sought an injunction barring Reynolds American and/or RJRT from alleging in the Florida enforcement litigation that ITG had breached the asset purchase agreement and requiring these companies to litigate issues under the asset purchase agreement in Delaware. Following a hearing on ITG's complaint and motion on 1 March 2017, the Delaware court entered a temporary restraining order that enjoined Reynolds American and RJRT from 'taking offensive action to assert claims against ITG Brands' in the Florida enforcement action, but the order does not prevent RJRT from making arguments in response to claims asserted by the State of Florida, PM USA or ITG in the Florida enforcement litigation. On 24 March 2017, Reynolds American and RJRT answered the ITG complaint and filed a motion to stay proceedings in Delaware pending the outcome of the Florida enforcement litigation, which motion was denied 18 May 2017. Cross motions for partial judgment on the pleadings were filed focusing on whether ITG's obligation to use 'reasonable best efforts' to join the Florida State Settlement Agreement continued after the 12 June 2015 closing. On 30 November 2017, following argument, the Delaware court ruled in favour of RJRT, holding that ITG's obligation to use its reasonable best efforts to join the Florida Settlement Agreement did not terminate due to the closing of the asset purchase agreement relating to the Divestiture. On 4 January 2019, RJRT filed another motion for partial judgment on the pleadings seeking to resolve two contract-interpretation questions under the asset purchase agreement: first, to the extent RJRT is held liable for any settlement payments based on post-closing sales of the Acquired Brands, ITG assumed this liability, and second, that the asset purchase agreement does not entitle ITG to a unique protection from an equity-fee law that does not yet exist in a Previously Settled State. Argument on RJRT's motion for partial judgment was heard on 4 June 2019. On 23 September 2019, the Delaware Chancery Court declined to resolve, at this time, the first issue, whether ITG had assumed any liability imposed on RJRT for making settlement payments on ITG's brands. The court concluded that both sides had presented reasonable interpretations of the asset purchase agreement, which was therefore ambiguous, so the court would require an evidentiary hearing to interpret the intent of the asset purchase agreement on assumed liabilities. The court also granted RJRT's motion on the second issue and ruled that ITG could not refuse to join the Florida State Settlement Agreement unless a joinder exempted it from a future equity-fee statute. On 1 October 2019, the Chancery Court entered an order on these latest motions for partial judgment on the pleadings. It granted RJRT's motion on the second issue. It denied both parties' motions on the first issue, deferring resolution until after the court receives evidence related to the parties' intent in their contract. On 11 October 2019, ITG filed in the Chancery Court a motion to seek interlocutory appeal in the Supreme Court, which was denied on 31 October 2019. On 31 October 2019, ITG filed a notice of interlocutory appeal directly to the Delaware Supreme Court, which was denied on 7 November 2019. Discovery is currently ongoing with respect to the hearing to interpret the intent of the asset purchase agreement on assumed liabilities.

27 Contingent Liabilities and Financial Commitments Continued

51. On 26 March 2018, the State of Minnesota filed a motion against RJRT to enforce the Minnesota State Settlement Agreement, which motion seeks payments under the Minnesota State Settlement Agreement of approximately US\$40 million (approximately £29 million) with respect to the Acquired Brands. The motion also claims future annual losses of approximately US\$15 million (approximately £11 million) absent the court's enforcement of the Minnesota State Settlement Agreement. The State of Minnesota also filed a separate complaint against ITG, which complaint seeks the same payments. The State's motion against RJRT and complaint against ITG seek, among other things, an order declaring that RJRT and ITG are in breach of the Minnesota State Settlement Agreement and are jointly and severally liable to make annual payments to the State of Minnesota under the Minnesota State Settlement Agreement with respect to the Acquired Brands. In addition, on 28 March 2018, PM USA filed a motion to enforce the Minnesota State Settlement Agreement, asserting, among other things, that RJRT and ITG breached the Minnesota State Settlement Agreement by failing to make settlement payments as to the Acquired Brands, which PM USA asserts has improperly shifted settlement payment obligations to PM USA. On 27 March 2018, the Minnesota court consolidated the motions to enforce and separate complaint against ITG into one proceeding captioned *In re Petition of the State of Minnesota for an Order Compelling Payments of Settlement Proceeds Related to ITG Brands LLC*, Court File No. 62-CV-18-1912. On 11 June 2018, the court held a scheduling conference in the case and by order dated 21 June 2018, set a discovery schedule for the case, under which discovery is complete. A hearing on the motions to enforce to determine if RJRT and/or ITG are liable to make payments on the Acquired Brands was held on 26 June 2019. On 24 September 2019, the Minnesota District Court issued an Order and Memorandum, holding RJRT liable for settlement payments on the Acquired Brands, and determining the issue of whether ITG is a 'successor or assign' of RJRT under the Minnesota State Settlement Agreement is unresolved, reasoning ITG's status depends on whether it satisfied its post-closing obligation to expend its reasonable best efforts to join the Minnesota State Settlement Agreement. On 23 December 2019, ITG filed a motion in the Minnesota District Court seeking certification of an appeal of certain questions arising from the 24 September 2019 order. On 21 January 2020, a hearing was held on ITG's motion seeking certification of an appeal. On 19 February 2020, the Minnesota District Court entered an Order and Memorandum denying ITG's motion for certification. A multi-day hearing to determine whether ITG is liable for settlement payments was completed on 9 September 2020. The parties filed post-hearing briefs on 13 November 2020; a decision is pending. A status conference is scheduled for 3 March 2021. Settlement discussions are ongoing. Under the proposed settlement framework, ITG and RJR Tobacco would split the 2015-2019 payments, ITG would join the settlement agreement and make all payments from 2020 forward, and RJR Tobacco and PM would resolve outstanding payment calculation issues.
52. On 28 January 2019, the State of Texas filed motions in the original Texas health care reimbursement case, brought against the tobacco industry that led to the Texas State Settlement Agreement, to join ITG as a defendant and to enforce the Texas State Settlement Agreement against RJRT and ITG, seeking payment under the Texas State Settlement Agreement of approximately US\$125 million (approximately £91 million) with respect to the Acquired Brands that were sold to ITG in the Divestiture. The motion also claimed future annual losses of an unspecified amount absent the court's enforcement of the Texas State Settlement Agreement. The State's motion sought,
- among other things, an order declaring that RJRT, or in the alternative, ITG, is in breach of the Texas Settlement Agreement and is required to make annual payments to the State under the Texas State Settlement Agreement with respect to the Acquired Brands. In addition, on 29 January 2019, PM USA filed a motion to enforce the Texas State Settlement Agreement, asserting among other things that RJRT and ITG breached that agreement by failing to make settlement payments as to the Acquired Brands, which PM USA asserts has improperly shifted settlement payment obligations to PM USA. After completion of discovery, a hearing on the motions to enforce was held on 30 October 2019. On 25 February 2020, the Court entered a Memorandum Opinion and Order holding that RJRT remains liable for settlement payments on the Acquired Brands under the Texas Settlement Agreement. The Court further held that, although ITG is unambiguously an assign within the meaning of the Texas Settlement Agreement, a final determination of the scope of ITG's obligations under the APA is to be determined in the litigation pending before the Delaware Court. Pursuant to the Court's direction, on 9 March 2020 the parties submitted a status report indicating the remaining issues before the Court include RJRT'S position that the Court should subtract the equity fee payments made on the Acquired Brands by ITG's distributors from the settlement payments due by RJRT after including the Acquired Brands in calculating damages, whether a final judgment should be entered in favour of ITG, whether a partial final judgment should be entered against RJRT and the State's request for an award of attorneys' fees and costs against RJRT and/or ITG. On 5 May 2020 the Court entered final judgment (later clarified in a 14 August 2020 amended judgment) on the State's motion, ordering RJRT to pay all settlement amounts due on the Acquired Brands under the Texas Settlement Agreement; granting RJRT a full dollar-for-dollar set-off for all equity fee payments made on the Acquired Brands by ITG or its distributors, but holding RJRT liable for any equity fee payments that are lawfully refunded; and ordering the case closed, to be reopened after ITG's liability under the APA is determined by the Delaware Court. ITG's equity fee payments to Texas for the Acquired Brands currently equal approximately 90% of the annual Texas settlement payments for those brands. Thus, the settlement payments for those Acquired Brands exceed ITG's equity fee payments by approximately US\$3 million (approximately £2 million) per year. As such, RJRT would owe approximately US\$3 million (approximately £2 million) a year after an equity fee credit. Due to how the profit penalty is allocated, RJRT will pay approximately US\$10 million (approximately £7 million) less in 2019 in Texas payments than it would have paid had ITG joined, with that trend continuing in future years. However, because ITG made equity fee payments at a substantially lower rate before 2019, and because of how the profit penalty was calculated before now, RJRT owes approximately US\$260.4 million (before interest) (approximately £190 million) in past payments under the judgment through 2020. On 3 and 4 June 2020, respectively, RJRT and ITG filed notices of appeal of the 5 May 2020 judgment. In August 2020, RJRT filed a notice of appeal, and in September 2020, the State and ITG filed notices of appeal from the portion of the judgment denying the motion to remove the equity fee set-off. RJRT moved to dismiss ITG's appeal for lack of jurisdiction, which motion was ordered by the Fifth Circuit Court of Appeals to be argued with ITG's appeal. On 2 November 2020 RJRT filed its appellate brief. On 19 January 2021 the parties filed responses. Settlement discussions are ongoing. Under the proposed settlement framework, ITG and RJR Tobacco would split the 2015-2019 payments, ITG would join the settlement agreement and make all payments from 2020 forward, and RJR Tobacco and PM would resolve outstanding payment calculation issues.

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27 Contingent Liabilities and Financial Commitments Continued

53. In June 2015, ITG joined the Mississippi Settlement Agreement. On 26 December 2018, PM USA filed a Motion to Enforce Settlement Agreement against RJRT and ITG alleging RJRT and ITG failed to act in good faith in calculating the base-year net operating profits for the Acquired Brands, claiming damages of approximately US\$6 million (approximately £4 million) through 2017. On 21 February 2019, the Chancery Court of Jackson County, Mississippi held a scheduling conference and issued a discovery schedule order. A hearing on PM USA's Motion to Enforce Settlement Agreement originally scheduled for 3-6 May 2021 was adjourned on consent of the parties to 11-12 August 2021. Settlement discussions are ongoing. Under the proposed settlement framework, RJR Tobacco and PM USA would resolve the outstanding payment calculation. On 3 December 2019, the State of Mississippi filed a Notice of Violation and Motion to Enforce the Settlement Agreement in the Chancery Court of Jackson County, Mississippi against RJRT, PM USA and ITG, seeking a declaration that the base year 1997 net operating profit to be used in calculating the Net Operating Profit Adjustment was not affected by the change in the federal corporate tax rate in 2018 from 35% to 21%, and an order requiring RJRT to pay the approximately US\$5 million (approximately £3.6 million) difference in its 2018 payment because of this issue. Determination of this issue may affect RJRT's annual payment thereafter. A hearing on Mississippi's Motion to Enforce Settlement Agreement is scheduled on 6-7 October 2021.

(e) UK — Based Group Companies

54. As at 31 December 2020, Investments has been served in one dormant individual action in the US (Perry) in which there has been no activity since 1998 following the plaintiff's death in 1997. Given the continued lack of activity, this case will now be considered dormant and closed.

Tobacco-Related Litigation Outside the United States

55. As at 31 December 2020:

- a. medical reimbursement actions are being brought in Angola, Argentina, Brazil, Canada, Nigeria and South Korea;
- b. class actions are being brought in Canada and Venezuela;
- c. active tobacco product liability claims against the Group's companies existed in 12 markets outside the US. The only markets with five or more claims were Argentina, Brazil, Canada, Chile, Nigeria and Italy.

(a) Medical reimbursement cases**Angola**

56. In or about November 2016, BAT Angola affiliate Sociedade Unificada de Tabacos de Angola (SUT) was served with a collective action filed in the Provincial Court of Luanda, 2nd Civil Section, by the consumer association Associação Angolana dos Direitos do Consumidor (AADIC). The lawsuit seeks damages of AOA 800,000,000 (approximately £893,400) allegedly incurred by the Angolan Instituto Nacional do Controlo do Cancro (INCC) for the cost of treating tobacco-related disease, non-material damages allegedly suffered by certain individual smokers on the rolls of INCC, and the mandating of certain cigarette package warnings. SUT filed its answer to the claim on or about 5 December 2016. The case remains pending.

Argentina

57. In 2007, the non-governmental organisation the Argentina Tort Law Association (ATLA) and Emma Mendoza Voguet brought a reimbursement action against Nobleza Piccardo S.A.I.C.y.F. (Nobleza) and Massalín Particulares. The case is being heard in the Contentious Administrative Court. The parties filed conclusive briefs on 20 May 2019 and await the Court's decision.

Canada

58. On 1 March 2019, the Quebec Court of Appeal handed down a judgment which largely upheld and endorsed the lower court's previous decision in two Quebec class actions (the Quebec Class Actions), as further described below. The share of the judgment for Imperial, the Group's operating company in Canada, is approximately CAD \$9.2 billion (approximately £5.3 billion). As a result of this judgment, there were attempts by the Quebec plaintiffs to obtain payment out of the CAD \$758 million (approximately £436 million) on deposit with the court. JTI-MacDonald Corp (a co-defendant in the cases) filed for creditor protection under the Companies' Creditors Arrangement Act (the CCAA) on 8 March 2019. A court order to stay all tobacco litigation in Canada against all defendants (including RJRT and its affiliate R.J. Reynolds Tobacco International Inc. (collectively, the RJR Companies)) until 4 April 2019 was obtained, and the need for a mediation process to resolve all the outstanding litigation across the country was recognised. On 12 March 2019 Imperial filed for creditor protection under the CCAA. In its application Imperial asked the Ontario Superior Court to stay all pending or contemplated litigation against Imperial, certain of its subsidiaries and all other Group companies that were defendants in the Canadian tobacco litigation, including British American Tobacco p.l.c. (the Company), Investments, Industries and Carreras Rothmans Limited (collectively, the UK Companies). On 22 March 2019, Rothmans, Benson & Hedges Inc. also filed for CCAA protection and obtained a stay of proceedings (together with the other two stays, the Stays). The Stays are currently in place until 31 March 2021. While the Stays are in place, no steps are to be taken in connection with the Canadian tobacco litigation with respect to any of the defendants.

59. The below represents the state of the referenced litigation as at the advent of the Stays.

60. Following the implementation of legislation enabling provincial governments to recover health-care costs directly from tobacco manufacturers, 10 actions for recovery of health-care costs arising from the treatment of smoking and health-related diseases have been brought. These proceedings name various Group companies as defendants, including the UK Companies and Imperial as well as the RJR Companies. Pursuant to the terms of the 1999 sale of RJRT's international tobacco business to Japan Tobacco Incorporated (JTI), JTI has agreed to indemnify RJRT for all liabilities and obligations (including litigation costs) arising in respect of the Canadian recoupment actions. Subject to a reservation of rights, JTI has assumed the defence of the RJR Companies in these actions.

61. The 10 cases were proceeding in British Columbia, New Brunswick, Newfoundland and Labrador, Ontario, Quebec, Manitoba, Alberta, Saskatchewan, Nova Scotia and Prince Edward Island. The enabling legislation is in force in all 10 provinces. In addition, legislation has received Royal Assent in two of the three territories in Canada, but has yet to be proclaimed into force.



27 Contingent Liabilities and Financial Commitments Continued

Canadian province	Act pursuant to which Claim was brought	Companies named as Defendants	Current stage
British Columbia	Tobacco Damages and Health Care Costs Recovery Act 2000	Imperial Investments Industries Carreras Rothmans Limited RJR Companies Other former Rothmans Group companies All have been served.	The defences of Imperial, Investments, Industries, Carreras Rothmans Limited and the RJR Companies have been filed, and document production and discoveries were ongoing. On 13 February 2017 the province delivered an expert report dated October 2016, quantifying its damages in the amount of CAD\$118 billion (approximately £67 billion). No trial date has been set. The federal government is seeking CAD\$5 million (approximately £3 million) jointly from all the defendants in respect of costs pertaining to the third-party claim, now dismissed.
New Brunswick	Tobacco Damages and Health Care Costs Recovery Act 2006	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	The defences of Imperial, the UK Companies and the RJR Companies have been filed and document production and discoveries are substantially complete. The most recent expert report filed by the Province estimated a range of damages between CAD \$11.1 billion (approximately £6.3 billion) and CAD \$23.2 billion (approximately £13.3 billion), including expected future costs. Following a motion to set a trial date, the New Brunswick Court of Queen's Bench ordered that the trial commence on 4 November 2019. On 7 March 2019, the New Brunswick Court of Queen's Bench released a decision which requires the Province to produce a substantial amount of additional documentation and data to the defendants. As a result, the original trial date of 4 November 2019 would have been delayed. No new trial date has been set.
Ontario	Tobacco Damages and Health Care Costs Recovery Act 2009	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	The defences of Imperial, the UK Companies and the RJR Companies have been filed. The parties completed significant document production in the summer of 2017 and discoveries commenced in the autumn of 2018. On 15 June 2018, the province delivered an expert report quantifying its damages in the range of CAD\$280 billion (approximately £161 billion) – CAD\$630 billion (approximately £362 billion) in 2016/2017 dollars for the period 1954 – 2060, and the Province amended the damages sought in its Statement of Claim to CAD\$330 billion (approximately £190 billion). On 31 January 2019, the Province delivered a further expert report claiming an additional amount between CAD \$9.4 billion (approximately £5.4 billion) and CAD\$10.9 billion in damages (approximately £6.3 billion) in respect of ETS. No trial date has been set.
Newfoundland and Labrador	Tobacco Health Care Costs Recovery Act 2001	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	The case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the province began its document production in March 2018. Damages have not been quantified by the province. No trial date has been set.
Saskatchewan	Tobacco Damages and Health Care Costs Recovery Act 2007	Imperial, the UK Companies and the RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the province has delivered a test shipment of documents. Damages have not been quantified by the province. No trial date has been set.
Manitoba	Tobacco Damages Health Care Costs Recovery Act 2006	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and document production commenced. Damages have not been quantified by the province. No trial date has been set.
Alberta	Crown's Right of Recovery Act 2009	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the province commenced its document production. The province has stated its claim to be worth CAD\$10 billion (approximately £5.7 billion). No trial date has been set.

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27 Contingent Liabilities and Financial Commitments Continued

Canadian province	Act pursuant to which Claim was brought	Companies named as Defendants	Current stage
Quebec	Tobacco Related Damages and Health Care Costs Recovery Act 2009	Imperial, Investments, Industries, the RJR Companies and Carreras Rothmans Limited have been named as defendants and served.	The case is at an early case management stage. The defences of Imperial, Investments, Industries, Carreras Rothmans Limited and the RJR Companies have been filed. Motions over admissibility of documents and damages discovery have been filed but not heard. The province is seeking CAD\$60 billion (approximately £34.5 billion). No trial date has been set.
Prince Edward Island	Tobacco Damages and Health Care Costs Recovery Act 2009	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed and the next step was expected to be document production, which the parties deferred for the time being. Damages have not been quantified by the province. No trial date has been set.
Nova Scotia	Tobacco Health Care Costs Recovery Act 2005	Imperial, the UK Companies and RJR Companies have all been named as defendants and served.	This case is at an early case management stage. The defences of Imperial, the UK Companies and the RJR Companies have been filed. The province provided a test document production in March 2018. Damages have not been quantified by the province. No trial date has been set.

Nigeria

62. British American Tobacco (Nigeria) Limited (BAT Nigeria), the Company and Investments have been named as defendants in a medical reimbursement action by the federal government of Nigeria, filed on 6 November 2007 in the Federal High Court, and in similar actions filed by the Nigerian states of Kano (9 May 2007), Oyo (30 May 2007), Lagos (13 March 2008), Ogun (26 February 2008), and Gombe (17 October 2008) commenced in their respective High Courts. In the five cases that remain active, the plaintiffs seek a total of approximately 10.6 trillion Nigerian naira (approximately £18.5 billion) in damages, including special, anticipatory and punitive damages, restitution and disgorgement of profits, as well as declaratory and injunctive relief.
63. The suits claim that the state and federal government plaintiffs incurred costs related to the treatment of smoking-related illnesses resulting from allegedly tortious conduct by the defendants in the manufacture, marketing, and sale of tobacco products in Nigeria, and assert that the plaintiffs are entitled to reimbursement for such costs. The plaintiffs assert causes of action for negligence, negligent design, fraud and deceit, fraudulent concealment, breach of express and implied warranty, public nuisance, conspiracy, strict liability, indemnity, restitution, unjust enrichment, voluntary assumption of a special undertaking, and performance of another's duty to the public.
64. The Company and Investments have made a number of challenges to the jurisdiction of the Nigerian courts. Such challenges are still pending (on appeal) against the federal government and the states of Lagos, Kano, Gombe and Ogun. The underlying cases are stayed or adjourned pending the final outcome of these jurisdictional challenges. In the state of Oyo, on 13 November 2015, and 24 February 2017, respectively, the Company's and Investments' jurisdictional challenges were successful in the Court of Appeal and the issuance of the writ of summons was set aside.

South Korea

65. In April 2014, Korea's National Health Insurance Service (NHIS) filed a healthcare recoupment action against KT&G (a Korean tobacco company), PM Korea and BAT Korea (including BAT Korea Manufacturing). The NHIS is seeking damages of roughly 54 billion Korean Won (approximately £36.3 million) in respect of health care costs allegedly incurred by the NHIS treating patients with lung (small cell and squamous cell) and laryngeal (squamous cell) cancer between 2003 and 2012. Court hearings in the case, which constitute the trial, commenced in September 2014. On 20 November 2020, the court issued a judgment in favour of the defendants and dismissing all of the plaintiff's claims. The NHIS filed an appeal of the judgment on 11 December 2020.

Brazil

66. On 21 May 2019, the Federal Attorney's Office (AGU) in Brazil filed an action in the Federal Court of Rio Grande do Sul against the Company, the BAT Group's Brazilian subsidiary Souza Cruz LTDA (Souza Cruz), Philip Morris International, Philip Morris Brazil Indústria e Comércio LTDA and Philip Morris Brasil S/A, asserting claims for medical reimbursement for funds allegedly expended by the federal government as public health care expenses to treat 26 tobacco-related diseases over the last five years and that will be expended in perpetuity during future years, including diseases allegedly caused both by cigarette smoking and exposure to ETS. The action includes a claim for moral damages allegedly suffered by Brazilian society to be paid into a public welfare fund. The action is for an unspecified amount of monetary compensation, as the AGU seeks a bifurcated action in which liability would be determined in the first phase followed by an evidentiary phase to ascertain damages.
67. On 19 July 2019, the trial court ordered that service of the action on the Company be effected via service on Souza Cruz. On 6 August 2019, Souza Cruz refused to receive service on behalf of the Company due to Souza Cruz's lack of power to receive the summons on behalf of the Company and such refusal was attached to the case files on 9 August 2019. On 7 August 2019, Souza Cruz was served with the complaint by the AGU and Souza Cruz's acknowledgement of service was attached to the case files on 12 August 2019.

27 Contingent Liabilities and Financial Commitments Continued

68. On 19 August 2019, Souza Cruz filed an interlocutory appeal challenging the 19 July 2019 trial court order permitting the AGU to effect service on the Company by serving Souza Cruz and requesting a stay of the proceedings until the appeal is decided. Souza Cruz also appealed the fact that several documents attached to the AGU's complaint are in English, without proper translation, and it also appealed the very short term of 30 days for the defendants to prepare their defences.
69. On 20 August 2019, Souza Cruz informed the trial court about the appeal and the trial court entered an order, which ordered the closure of the online system preventing the parties from submitting any petition so that no prejudice would be caused to the defendants and permitted the AGU, within 15 days of its notification, to respond to the argument that the service of a foreign defendant via its Brazilian subsidiary constituted improper service. On 21 August 2019, the substitute reporting judge of the appellate court, having been notified that the trial court judge had in the meantime issued a new decision (thereby revoking the previous decision), ruled that the appeal filed had therefore been rendered moot. The AGU filed its submission in the trial court on 19 September 2019, and Souza Cruz filed a reply submission on 25 September 2019. Souza Cruz reported on 4 February 2020 that the trial court ruled that service of the Company via its Brazilian subsidiary constituted proper service, denied the request for additional time to file defences, denied the request to have the foreign language documents attached to the initial complaint fully translated into Portuguese, and ordered that defences be filed within 30 business days. On 18 February 2020, Souza Cruz filed an interlocutory appeal (including a request to stay the deadline to file defences). On 12 March 2020, the court denied the request for a stay. On 11 May 2020, the Company filed a petition to intervene in Souza Cruz's interlocutory appeal. On 17 June 2020, AGU filed its opposition to Souza Cruz's interlocutory appeal. The Company filed a reply submission on 8 July 2020. On 15 July 2020, the court denied the interlocutory appeal. Souza Cruz and the Company submitted on 6 August 2020 requests for clarification of this appellate decision, which requests remain pending. Souza Cruz and the Company filed their respective defences on 12 May 2020. On 19 May 2020, a notice was sent to the Public Prosecutor's Office (MPF) regarding the AGU's request that the MPF join the action as a plaintiff. The MPF, in its response filed 10 July 2020, rejected the AGU's request, and declined to join the action as party, but will act as an 'inspector of the law', which enables MPF to express its opinion on matters in the case. The judge so far has not opened up the term for the AGU to reply to the defences presented.

(b) Class Actions

Brazil

70. In 1995, the Associação de Defesa da Saúde do Fumante class action was filed against Souza Cruz and Philip Morris in the São Paulo Lower Civil Court alleging that the defendants are liable to a class of smokers and former smokers for failing to warn of cigarette addiction. The case was stayed in 2004 pending the defendants' appeal from a decision issued by the Lower Civil Court that held that the defendants had not met their burden of proving that cigarette smoking was not addictive or harmful to health.

71. On 12 November 2008, the São Paulo Court of Appeals overturned the lower court's unfavourable decision of 2004, returning the case to the lower court for production of evidence and a new judgment. Following production of evidence, on 16 May 2011, the lower court granted Souza Cruz's motion to dismiss the action in its entirety on the merits. The plaintiffs' appeal to the Sao Paolo Court of Appeals was unsuccessful. The plaintiffs then filed a Special Appeal to the Superior Court of Justice, which was rejected under procedural grounds on 20 February 2017. The plaintiffs filed an appeal of the rejection in the Superior Court of Justice on 15 March 2017. On 8 May 2020, this appeal was rejected and plaintiffs filed a further appeal that was in turn rejected on 28 August 2020. Plaintiffs filed no further appeal and the Superior Court of Justice certified the decision in favour of defendants on 22 September 2020, which closed the case.

Canada

72. As noted above, on 1 March 2019 the Quebec Court of Appeal handed down a judgment which largely upheld and endorsed the lower court's previous decision in two Quebec Class Actions, as further described below. Imperial's share of the judgment is approximately CAD \$9.2 billion (approximately £5.3 billion). As a result of this judgment, there were attempts by the Quebec plaintiffs to obtain payment out of the CAD \$758 million (approximately £436 million) on deposit with the court. JTI-MacDonald Corp (a co-defendant in the cases) filed for creditor protection under the CCAA on 8 March 2019. A court order to stay all tobacco litigation in Canada against all defendants (including the RJR Companies) until 4 April 2019 was obtained, and the need for a mediation process to resolve all the outstanding litigation across the country was recognised. On 12 March 2019 Imperial filed for protection under the CCAA. In its application Imperial asked the Ontario Superior Court to stay all pending or contemplated litigation against Imperial, certain of its subsidiaries and all other Group companies that were defendants in the Canadian tobacco litigation, including the UK Companies. On 22 March 2019, Rothmans, Benson & Hedges Inc. also filed for CCAA protection and obtained a stay of proceedings (together with the other two stays, the Stays). The Stays are currently in place until 31 March 2021. While the Stays are in place, no steps are to be taken in connection with the Canadian tobacco litigation with respect to any of the defendants.
73. The below represents the state of the referenced litigation as at the advent of the Stays.
74. There are 11 class actions being brought in Canada against Group companies.
75. *Knight Class Action*: the Supreme Court of British Columbia certified a class of all consumers who purchased Imperial cigarettes in British Columbia bearing 'light' or 'mild' descriptors since 1974. The plaintiff is seeking compensation for amounts spent on 'light and mild' products and a disgorgement of profits from Imperial on the basis that the marketing of light and mild cigarettes was deceptive because it conveyed a false and misleading message that those cigarettes are less harmful than regular cigarettes.

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27 Contingent Liabilities and Financial Commitments Continued

76. On appeal, the appellate court confirmed the certification of the class, but limited any financial liability, if proven, to 1997 onward. Imperial's third-party claim against the federal government was dismissed by the Supreme Court of Canada. The federal government is seeking a cost order of CAD\$5 million (approximately £3 million) from Imperial relating to its now dismissed third-party claim. After being dormant for several years, the plaintiff delivered a Notice of Intention to Proceed, and Imperial delivered an application to dismiss the action for delay. The application was heard on 23 June 2017 and was dismissed on 23 August 2017. Notice to class members of certification was provided on 14 February 2018. As at the date of the Stays, the next steps were expected to include discovery-related ones.
77. *Growers' Class Action*: in December 2009, Imperial was served with a proposed class action filed by Ontario tobacco farmers and the Ontario Flue-Cured Tobacco Growers' Marketing Board. The plaintiffs allege that Imperial and the Canadian subsidiaries of Philip Morris International and JTI failed to pay the agreed domestic contract price to the growers used in products manufactured for the export market and which were ultimately smuggled back into Canada. JTI has sought indemnification pursuant to the JTI Indemnities (discussed below at paragraphs 137-138). The plaintiffs seek damages in the amount of CAD\$50 million (approximately £29 million). Various preliminary challenges have been heard, the last being a motion for summary judgment on a limitation period. The motion was dismissed and ultimately, leave to appeal to the Ontario Court of Appeal was dismissed in November 2016. In December 2017, the plaintiffs proposed that the action proceed by way of individual actions as opposed to a class action. The defendants did not consent. As at the date of the Stays, the claim was in abeyance pending further action from the plaintiffs.
78. *Quebec Class Actions*: there are currently two class actions in Quebec. On 21 February 2005, the Quebec Superior Court granted certification in two class actions against Imperial and two other domestic manufacturers. The court certified two classes, with the class definitions being revised in the judgment rendered 27 May 2015. One class consists of residents of Quebec who (a) smoked before 20 November 1998 at least 12 pack years of cigarettes manufactured by the defendants; and (b) were diagnosed before 12 March 2012 with: lung cancer, or cancer (squamous cell carcinoma) of the throat, or emphysema. The group also includes the heirs of persons deceased after 20 November 1998 who meet the criteria described above. The second consists of residents of Quebec who, as of 30 September 1998, were addicted to nicotine contained in cigarettes and who in addition meet the following three criteria: (a) they started smoking before 30 September 1994 by smoking cigarettes manufactured by the defendants; (b) between 1 September and 30 September 1998 they smoked on average at least 15 cigarettes manufactured by the defendants on a daily basis; and (c) they still smoked an average of at least 15 cigarettes manufactured by the defendants as of 21 February 2005, or until their death if it occurred before that date. The group also includes the heirs of members who meet the criteria described above. Pursuant to the judgment, the plaintiffs were awarded damages and interest against Imperial and the Canadian subsidiaries of Philip Morris International and JTI in the amount of CAD\$15.6 billion (approximately £8.9 billion), most of which was on a joint and several basis, of which Imperial's share was CAD\$10.4 billion (approximately £5.9 billion). An appeal of the judgment was filed on 26 June 2015. The court also awarded provisional execution pending appeal of CAD\$1,131 million (approximately £650 million), of which Imperial's share was approximately CAD\$742 million (approximately £426 million). This order was subsequently overturned by the Court of Appeal. Following the cancellation of the order for provisional execution, the plaintiffs filed a motion against Imperial and one other manufacturer seeking security in the amount of CAD \$5 billion (approximately £2.9 billion) to guarantee, in whole or in part, the payment of costs of the appeal and the judgment. On 27 October 2015, the Court of Appeal ordered the parties to post security in the amount of CAD\$984 million (approximately £565 million), of which Imperial's share was CAD\$758 million (approximately £436 million). The security was paid in seven equal quarterly instalments of just over CAD\$108 million (approximately £62 million) between 31 December 2015 and 30 June 2017. The appeal was heard in November 2016. On 1 March 2019, the trial judgment was upheld by a unanimous decision of the five-member panel of the Court of Appeal, with one exception being an amendment to the original interest calculation applied to certain portions of the judgment. The interest adjustment has resulted in the reduction of the total maximum award in the two cases to CAD \$13.7 billion (approximately £7.9 billion) as of 1 March 2019, with Imperial's share being reduced to approximately CAD \$9.2 billion (approximately £5.2 billion). The Court of Appeal also upheld the payment of the initial deposits into the defendants' solicitors' trusts account within 60 days, totalling approximately CAD \$1.13 billion (approximately £649 million), of which Imperial's share was recalculated by the Court of Appeal as CAD \$759 million (approximately £436 million). Imperial has already paid CAD \$758 million (approximately £436 million) into court as security for the judgment.
79. *Other Canadian Smoking and Health Class Actions*: seven putative class actions, described below, have been filed against various Canadian and non-Canadian tobacco-related entities, including the UK Companies, Imperial and the RJR Companies, in various Canadian Provinces. In these cases, none of which have quantified their asserted damages, the plaintiffs allege claims based on fraud, fraudulent concealment, breach of warranty of merchantability, and of fitness for a particular purpose, failure to warn, design defects, negligence, breach of a 'special duty' to children and adolescents, conspiracy, concert of action, unjust enrichment, market share liability and violations of various trade practices and competition statutes. Pursuant to the terms of the 1999 sale of RJRT's international tobacco business, and subject to a reservation of rights, JTI has assumed the defence of the RJR Companies in these seven actions (Semple, Kunka, Adams, Dorion, Bourassa, McDermid and Jacklin, discussed below).
80. In June 2009, four smoking and health class actions were filed in Nova Scotia (Semple), Manitoba (Kunka), Saskatchewan (Adams) and Alberta (Dorion) against various Canadian and non-Canadian tobacco-related entities, including the UK Companies, Imperial and the RJR Companies. In Saskatchewan, the Company, Carreras Rothmans Limited and Ryeseckks p.l.c. have been released from Adams, and the RJR Companies have brought a motion challenging the jurisdiction of the court. No date has been set in these cases with respect to the certification motion hearing. There are service issues in relation to Imperial and the UK Companies in Alberta and in relation to the UK Companies in Manitoba.

27 Contingent Liabilities and Financial Commitments Continued

81. In June 2010, two further smoking and health class actions were filed in British Columbia against various Canadian and non-Canadian tobacco-related entities, including Imperial, the UK Companies and the RJR Companies. The Bourassa claim is allegedly on behalf of all individuals who have suffered chronic respiratory disease and the McDermid claim proposes a class based on heart disease. Both claims state that they have been brought on behalf of those who have 'smoked a minimum of 25,000 cigarettes'. The UK Companies, Imperial, the RJR Companies and other defendants objected to jurisdiction. Subsequently, the Company, Carreras Rothmans Limited and Ryeseckks p.l.c. were released from Bourassa and McDermid. Imperial, Industries, Investments and the RJR Companies remain as defendants in both actions. The plaintiffs did not serve their certification motion materials and no date for a certification motion was set.
82. In June 2012, a smoking and health class action was filed in Ontario (Jacklin) against various Canadian and non-Canadian tobacco-related entities, including the UK Companies, Imperial and the RJR Companies. The claim has been in abeyance.

Venezuela

83. In April 2008, the Venezuelan Federation of Associations of Users and Consumers (FEVACU) and Wolfgang Cardozo Espinel and Giorgio Di Muro Di Nunno, acting as individuals, filed a class action against the Venezuelan government. The class action seeks regulatory controls on tobacco and recovery of medical expenses for future expenses of treating smoking-related illnesses in Venezuela. Both C.A Cigarrera Bigott Succs. (Cigarrera Bigott), a Group subsidiary, and ASUELECTRIC, represented by its president Giorgio Di Muro Di Nunno (who had previously filed as an individual), have been admitted as third parties by the Constitutional Chamber of the Supreme Court of Justice. A hearing date for the action is yet to be scheduled. On 25 April 2017 and on 23 January 2018, Cigarrera Bigott requested the court to declare the lapsing of the class action due to no proceedings taking place in the case in over a year. A ruling on the matter is yet to be issued.

(c) Individual Tobacco Related Personal Injury Claims

84. As at 31 December 2020, the jurisdictions with the most active individual cases against Group companies were, in descending order: Brazil (31), Italy (14), Chile (8), Canada (6), Argentina (5) and Ireland (2). There were a further two jurisdictions with one active case only. Out of the 68 active individual tobacco related personal injury claims, one case in Argentina (Baldassare) received an unfavourable verdict as at 31 December 2020. In that case, a first instance judgment, issued on 28 December 2020, awarded damages to the plaintiff in the amount of ARS 685,976 (approximately £6,000) in compensatory damages and ARS 2,500,000 (approximately £22,000) in punitive damages (plus interest). This judgment is subject to appeal.

Non-Tobacco Related Litigation

VUSE Litigation

85. On 15 May 2020, four public school districts in the State of Illinois (Peoria Public Schools District 150, Hall Township High School District 502, Marion Community School District 2, and La Moille Community Unit School District 303) filed a putative class action complaint in California federal court, individually and on behalf of all similarly situated school districts in Illinois, against Reynolds American, RJR Vapor, the Company, Lorillard LLC and LOEC, Inc., as well as against JUUL Labs Inc., Altria Group Inc., Altria Client Services Inc., Altria Group Distribution Company, Nu Mark LLC, Nu Mark Innovations Ltd., Imperial Brands plc, Fontem Ventures BV, Fontem US Inc., and Walgreen Co. Plaintiffs have asserted several claims against Reynolds American, RJR Vapor, Lorillard LLC, and LOEC, Inc. and the Company, including claims of public nuisance alleging that the defendants negligently or intentionally marketed vapour products to students enrolled in the plaintiffs' schools, as well as claims for negligence, misrepresentation, fraud, unjust enrichment and alleged violation of Illinois consumer fraud and trade practices statutes. The complaint was served on 13 July 2020 on Reynolds American, RJR Vapor, Lorillard LLC, and LOEC, Inc., and on 3 August 2020, Reynolds American, RJR Vapor, Lorillard LLC, and LOEC, Inc. moved for dismissal of the complaint for lack of personal jurisdiction, improper venue and failure to state a claim for relief. On 3 August 2020, the Company moved to dismiss the complaint for improper service and lack of personal jurisdiction. The case was assigned to a multi-district litigation proceeding that was consolidated for pre-trial purposes in October 2019 by the US JPML at the request of JUUL Labs Inc. On 13 August 2020, plaintiffs filed a notice of voluntary dismissal without prejudice, and the case was closed.
86. On 22 July 2020, Nicholas Bernston filed a personal injury action in the Northern District of Oklahoma against JUUL Labs Inc. (JUUL), Altria Client Services, LLC, RJR Vapor, Reynolds American, and others. The complaint seeks damages for personal injuries (including pneumonia and acute respiratory failure) allegedly resulting from vaping on several theories, including strict liability, negligence, and breach of implied warranty of merchantability. On 24 July 2020, JUUL notified the JPML that this case could be a potential tag-along in the JUUL MDL. On 5 August 2020, the Judicial Panel on Multidistrict Litigation entered a conditional transfer order transferring the case to the Northern District of California. That order became effective on 12 August 2020, and this case now is a member case in the JUUL multidistrict litigation (MDL). On 13 October 2020, RJR Vapor and Reynolds American moved to dismiss the complaint or, in the alternative, for a stay or a suggestion of remand to the Northern District of Oklahoma. On 16 October 2020, the MDL court issued an order staying those motions to dismiss. The case will remain pending against Reynolds American and RJR Vapor, but they will not be subject to discovery or other pretrial obligations absent further order from the court.

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Notes on Accounts Continued

27 Contingent Liabilities and Financial Commitments Continued

Croatian Distributor Dispute

87. BAT Hrvatska d.o.o u likvidaciji and British American Tobacco Investments (Central and Eastern Europe) Limited are named as defendants in a claim by Mr Perica received on 22 August 2017 and brought before the commercial court of Zagreb, Croatia. Mr Perica seeks damages of HRK 408,000,000 (approximately £48 million) relating to a BAT Standard Distribution Agreement dating from 2005. BAT Hrvatska d.o.o and British American Tobacco Investments (Central and Eastern Europe) Ltd filed a reply to the statement of claim on 6 October 2017. A hearing had been scheduled to take place on 10 May 2018, but it was postponed due to a change of the judge hearing the case. The Commercial Court in Zagreb declared they do not have jurisdiction and that the competent court to hear this case is the Municipal Court in Zagreb. TDR d.o.o. is also named as the defendant in a claim by Mr Perica received on 30 April 2018 and brought before the commercial court of Zagreb, Croatia. Mr. Perica seeks payment in the amount of HRK 408,000,000 (approximately £48 million) claiming that BAT Hrvatska d.o.o. transferred a business unit to TDR d.o.o, thus giving rise to a liability of TDR d.o.o. for the debts incurred by BAT Hrvatska d.o.o, on the basis of the provisions of Croatian civil obligations law. A response to the statement of claim was filed on 30 May 2018. The Commercial Court in Zagreb declared they do not have jurisdiction and that the competent court to hear this case is the Municipal Court in Pula. Mr Perica filed an appeal against this decision which was rejected by the High Commercial Court of The Republic of Croatia confirming therewith that the competent court to hear this case is the Municipal Court in Pula. The Municipal Court in Zagreb has decided that the claims by Mr Perica initiated on 22 August 2017 and 30 April 2018 shall be heard as one case in front of the Municipal Court of Zagreb.

BAT/Reynolds American Inc. Shareholder Litigation

88. Following the Company's acquisition of the remaining 57.8% of Reynolds American in July 2017, pursuant to North Carolina law, under which Reynolds American was incorporated, a number of Reynolds American shareholders dissented and asserted their rights to a judicial appraisal of the value of their Reynolds American stock. On 29 November 2017, Reynolds American filed a Complaint for Judicial Appraisal in state court in North Carolina against 20 dissenting shareholders holding an aggregate of approximately 9.65 million shares. The complaint asked the court to determine the fair value of the dissenting shareholders' shares in Reynolds American and any accrued interest. A trial was held in June 2019, at which the dissenters sought US\$92.17 per share plus interest. On 27 April 2020, the court issued its final judgment upholding Reynolds American's proposed valuation of \$59.64 per share and concluding that no further payment is due to the dissenters for their shares. Dissenting shareholders holding an aggregate of approximately 6.52 million shares filed a notice of appeal to the North Carolina Supreme Court on 21 May 2020, and briefing of the appeal concluded on 14 December 2020.

Patents Litigation

89. Certain Group companies are party to a number of patent litigation cases and procedural challenges concerning the validity of patents owned by or licensed to them and/or the alleged infringement of third-parties' patents.

90. On 22 June 2018, an affiliate of Philip Morris International (PMI) commenced proceedings against British American Tobacco Japan, Ltd. (BAT Japan) in the Japanese courts challenging the import, export, sale and offer of sale of the glo device and of the NeoStiks consumable in Japan at the time the claim was brought (and earlier models of the glo device), alleging that the glo devices directly infringe certain claims of two Japanese patents that have been issued to the PMI affiliate and that the NeoStiks indirectly infringe certain claims of those patents. On 17 January 2019, the PMI affiliate introduced new grounds of infringement, alleging that the glo device also infringes some other claims in the two PMI affiliate's Japanese patents. Damages for the glo device and NeoStik are claimed in the court filing, to the amount of 100 million Yen (approximately £708,000). The PMI affiliate has also filed a request for injunction with respect to the glo device. BAT Japan denies infringement and is challenging the validity of the two PMI affiliate's Japanese patents.

91. Fuma International LLC (Fuma) filed two separate patent infringement complaints in the US District Court for the Middle District of North Carolina against RJR Vapor on 6 March 2019 and 2 July 2019, each alleging that Vuse Solo and Vuse Ciro products infringe a patent. The two complaints were consolidated into a single proceeding involving both asserted Fuma patents. Fuma seeks monetary damages in an amount ranging from US\$64.0 million (approximately £47 million) to US\$135.4 million (approximately £99 million) (which the Court may (but is not obligated to) increase up to 3x the actual damages awarded should RJR Vapor be found to have wilfully infringed) and an injunction. RJR Vapor filed its answer, affirmative defences and declaratory judgment counterclaim for patent unenforceability based on inequitable conduct on 26 July 2019. RJR Vapor's inequitable conduct counterclaim was dismissed by the Court on 6 March 2020. The Court issued its claim construction order on 23 March 2020, which is consistent with RJR Vapor's non-infringement positions for Vuse Ciro and Vuse Solo products. The first court ordered mediation session was held on 23 January 2020 and a second was held on 30 October 2020. Dispositive motions were filed on 20 October 2020 (Fuma moved for summary judgment of infringement and RJR Vapor moved for summary judgment of non-infringement). Briefing on the summary judgment motions was completed on 25 November 2020.

92. On 9 April 2020, Nicoventures Trading Limited (Nicoventures) commenced an action in the England and Wales High Court (Patents Court) against Philip Morris Products S.A. (PMP) for revocation against three divisional patents in the same family, of which PMP is the proprietor (a further divisional patent in the same family was added into the revocation action on 9 July 2020). On 12 May 2020 PMP filed its defence together with a counterclaim for patent infringement against Nicoventures and Investments concerning prototype examples or production samples of certain 'glo' tobacco heating devices. PMP are seeking an injunction, an order for delivery up or a destruction upon oath of all infringing articles, and either an account of profits or damages on commercial sales (and interest thereon). On 12 June 2020, Nicoventures and Investments filed their defence to the counterclaim. The trial of this action will take place in the week commencing 17 May 2021.



27 Contingent Liabilities and Financial Commitments Continued

93. On 28 May 2020 Altria Client Services LLC and U.S. Smokeless Tobacco Company LLC commenced proceedings against RJR Vapor before the US District Court for the Middle District of North Carolina against the vapour products Vuse Vibe and Vuse Alto, and the tin used in the modern oral product Velo. Nine patents in total were asserted: two against Vibe, four against Alto and three against Velo. On 5 January 2021, Altria filed an Amended Complaint that adds Modoral Brands, Inc. as a defendant with respect to the Velo product claims. The plaintiffs have sought damages but have not to date sought preliminary or permanent injunctions. RJR Vapor has responded to the complaint. Pleadings are closed, and fact discovery is proceeding. The parties have agreed on a mediator, but have not set a date for mediation. The court issued a scheduling order on 28 October 2020. Significant dates in that order include a claim construction hearing tentatively set for the week of 22 March 2021 and the close of fact discovery on 23 June 2021. No trial date has been set.
94. On 9 April 2020, RAI Strategic Holdings, Inc. and RJR Vapor commenced an action in the US District Court for the Eastern District of Virginia against Altria Client Services LLC, Philip Morris USA, Inc., Altria Group, Inc., Philip Morris International, Inc., and Philip Morris Products S.A. (collectively, Philip Morris) for infringement of six patents based on the importation and commercialisation within the United States of IQOS. On 8 May 2020 and 12 June 2020, Philip Morris filed Inter Partes Review (IPR) petitions in the US Patent Office challenging the validity of each of the six patents asserted. On 29 June 2020, Philip Morris asserted counterclaims alleging that RJR Vapor infringes five patents. On 24 November 2020, the court issued a claim construction order that determined that each disputed term would have its plain and ordinary meaning. On 4 December 2020, the magistrate judge issued an order staying RJR Vapor and Philip Morris's patent claims pending a decision by the US Patent Office regarding whether to proceed with the IPRs. At the time of the stay, fact and expert discovery was ongoing and was scheduled to conclude 26 January 2021. If the stay is lifted, fact and expert discovery will resume and it is expected that the date for close of fact and expert discovery will be rescheduled based on the date the stay is lifted (i.e., approximately 8 weeks after the date the stay is lifted). On 13 January 2021, the USPTO instituted one of the IPRs. The parties submitted a joint status report on 19 January 2021. On 20 January 2021, Philip Morris filed a motion to lift the stay solely as to the counterclaims against RJRV; RJRV is opposing Philip Morris's motion and filed its opposition on 28 January 2021.
95. On 27 November 2020 Philip Morris filed a complaint before the Regional Court Mannheim in Germany against British American Tobacco (Germany) GmbH (BAT Germany) alleging that the sale, offer for sale and importation of Vype ePod products infringes a patent. Philip Morris is seeking an injunction, a recall of product from commercial customers and a declaratory judgment for damages. The trial of this action will take place on 15 June 2021.
96. On 11 December 2020 Philip Morris filed a complaint before the Regional Court Dusseldorf in Germany against BAT Germany alleging that the sale, offer for sale and importation of glo TABAK HEATER and neo STICK products infringe a patent. Philip Morris is seeking an injunction, a recall of product from commercial customers and a declaratory judgment for damages.

Mozambican IP Litigation

97. On 19 April 2017, Sociedade Agrícola de Tabacos, Limitada (SAT) (a BAT Group company in Mozambique) filed a complaint to the National Inspectorate for Economic Activities (INAE), the government body under the Ministry of Industry and Trade, regarding alleged infringements of its registered trademark (GT) by GS Tobacco SA (GST). INAE subsequently seized the allegedly infringing products (GS cigarettes) and fined and ordered GST to discontinue manufacturing products that could infringe SAT's intellectual property rights. Following INAE's decision, in July 2017 and March 2018, SAT sought damages via the Judicial Court of Nampula, from GST in the amount of and equivalent to £573,000 as well as a permanent restraint order in connection with the manufacturing and selling of the allegedly infringing products. The Judicial Court of Nampula (Tribunal Judicial de Nampula) granted the order on an interim basis on 7 August 2017. After hearing the parties, on 5 September 2017, the court found that no alleged infringement by GST had occurred and removed the interim restraint order, this decision was appealed by SAT and is currently pending a decision. GST filed an application for review against INAE's initial decision directly to the Minister of Trade and Industry, which reversed the decision of INAE. On 31 December 2018, SAT was notified of GST's counterclaim against SAT at the Judicial Court of Nampula for damages allegedly sustained as a result of SAT's complaint to INAE (and INAE's decision). GST is seeking damages in the amount equivalent to £190 million. On 31 January 2019 SAT filed a formal response to the counterclaim. GST was notified on 28 February 2019 to file a response to our formal response to the counterclaim and the judge scheduled the preliminary hearing for 14 March 2019. This hearing was adjourned and was held on 2 April 2019, when the court heard arguments on the validity of SAT's counterclaim. On 2 September 2019, SAT received notification of an order which provided that (i) SAT's claim had been dismissed by the court; and (ii) the GST counterclaim would proceed to trial. On 9 September 2019 SAT responded to the order by appealing the dismissal of the SAT claim. Additionally, SAT made an interlocutory application in the counterclaim proceedings to challenge certain questions posed by the judge, on the basis that the responses may be used as evidence at trial.

Malawi Group Action

98. In December 2020, the Company and British American Tobacco (GLP) Limited (GLP) were named as defendants in a claim made in the English High Court by around 7,500 Malawian tobacco farmers and their family members. The claim also names Imperial Brands plc and five affiliates as defendants. The claimants allege they were subjected to unlawful and exploitative working conditions on tobacco farms from which it is alleged that the defendants indirectly acquire tobacco. They seek unquantified damages (including aggravated and exemplary damages) for the torts of negligence and conversion and unquantified personal and proprietary remedies for restitution of unjust enrichment. They also seek an injunction to restrain the commission of further torts of conversion or negligence by the defendants. The Company and GLP intend vigorously to defend the claim.



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27 Contingent Liabilities and Financial Commitments Continued

Qatar Customs Authority Claims

99. On 12 November 2020, British American Tobacco Middle East W.L.L (formerly British American Tobacco Middle East SPC) (BATME), along with its distributor in Qatar, Ali Bin Ali Establishment (ABA), filed a case before the Qatar Court of First Instance which challenges a decision of the Qatar Customs Authority dated 16 August 2020 ordering ABA to pay a total amount of QAR 160,531,588 (approximately £33 million) in customs duties and penalties in relation to 27 consignments of cigarettes imported into Qatar by ABA. BAT ME's potential liability in respect of the foregoing amounts arises from certain contractual arrangements with ABA. BAT ME and ABA strongly assert that the additional customs duty and penalties imposed by the Qatar Customs Authority are inconsistent with the customs law of the GCC. The case is in the very early stages, and the Qatar Customs Authority has not yet filed its pleading in response to the claim.

Saudi Arabia Customs Claim

100. On 25 January 2021, Walid Ahmed Mohammed Al Naghi for Trading Establishment (Al Naghi), a former distributor for the Group's operating companies in the Middle East, filed a claim in the Commercial Court in Jeddah, Saudi Arabia, seeking SAR 2,105,356,121 (approximately £410 million) for reimbursement of funds allegedly due under contract. Al Naghi did not formally name any Group entity as a defendant in the claim. The claim was dismissed orally by the Court on 9 February 2021.

Rentko Asbestos Action

101. On 15 January 2021, plaintiffs in an individual asbestos personal injury action (Rentko), originally filed 5 October 2020 in the New York City Asbestos Litigation court, filed an amended complaint, which names as defendants the Company, BATUS Holdings, Inc., British American Tobacco (Brands), Inc., and RJRT, along with various other defendants. The amended complaint was served 20 January 2021 on BATUS Holdings, Inc. and British American Tobacco (Brands), Inc., and served 22 January 2021 on RJRT. The amended complaint alleges that one of the plaintiffs was exposed to the defendants' asbestos and asbestos-contaminated talcum powder products, which allegedly caused her to develop mesothelioma, and asserts claims under state law, including for negligence, breach of warranty, product liability, negligent misrepresentation, fraudulent concealment, and civil conspiracy. A further amended complaint was filed on 27 January 2021, which names Reynolds American as a defendant as an alleged successor in interest to the Company, and which was served on Reynolds American on 5 February 2021. Plaintiffs seek unspecified compensatory and punitive damages jointly and severally against the defendants.

Fox River

Background to environmental liabilities arising out of contamination of the Fox River:

102. In Wisconsin, the authorities have identified potentially responsible parties (PRPs) to fund the clean-up of river sediments in the lower Fox River. The pollution was caused by discharges of Polychlorinated Biphenyls (PCBs) from paper mills and other facilities operating close to the river. Among the PRPs is NCR Corporation (NCR).
103. In NCR's Form 10-K Annual Report for the year ended 31 December 2014, which is the most recent public source available, the total clean-up costs for the Fox River are estimated at US\$825 million (approximately £603 million). This estimate is subject to uncertainties and does not include natural resource damages (NRDs). Total NRDs may range from US\$0 to US\$246 million (approximately £0 to £180 million).

104. Industries' involvement with the environmental liabilities arises out of indemnity arrangements which it became party to due to a series of transactions that took place from the late-1970s onwards and subsequent litigation brought by NCR against Industries and Appvion Inc. (Appvion) (a former Group subsidiary) in relation to those arrangements which was ultimately settled. US authorities have never identified Industries as a PRP.

105. There has been a substantial amount of litigation in the United States involving NCR and Appvion regarding the responsibility for the costs of the clean-up operations. The US Government also brought enforcement proceedings against NCR and Appvion to ensure compliance with regulatory orders made in relation to the Fox River clean-up. This litigation has been settled through agreements with other PRPs and a form of settlement known as a Consent Decree with the US Government, approved by the District Court of Wisconsin on 23 August 2017.

106. The principal terms of that Consent Decree, in summary, are as follows:

- NCR is obliged to perform and fund all of the remaining Fox River remediation work by itself.
- The US Government enforcement proceedings were settled, with NCR having no liability to meet the US Government's claim for costs it had incurred in relation to the clean-up to date, a secondary responsibility to meet certain future costs, and no liability to the US Government for NRDs.
- NCR ceased to pursue its contribution claims against the other PRPs and in return received contribution protection preventing other PRPs from pursuing their contribution claims against NCR and existing claims for contribution being dismissed by order of the Court. NCR does, however, have the right to reinstate its contribution claims if the other PRPs decide to continue to pursue certain contractual claims against NCR.
- Appvion also agreed to cease pursuance of claims against the other PRPs, subject to retention of the right to reinstate its claims if the other PRPs decide to continue to pursue certain claims against Appvion.

107. A Consent Decree between the US Government, P.H. Glatfelter and Georgia Pacific settling the allocation of costs on the Fox River was approved by the District Court in the Eastern District of Wisconsin on 14 March 2019. This Consent Decree concludes all existing litigation on the Fox River, following P.H. Glatfelter's withdrawal of its appeal against the issuance of the Consent Decree as a term of the settlement.

108. In NCR's Form 10-K Annual Report for the year ended 31 December 2019 NCR disclosed that, in November 2019, an arbitral tribunal had awarded US\$10 million (approximately £7 million) to a remediation general contractor engaged by the LLC formed by NCR and Appvion to perform the clean-up operation of the Fox River. It further indicated that it expected its indemnitors and co obligors to bear responsibility for the majority of the award, estimating its own share as approximately one fourth of the award.



27 Contingent Liabilities and Financial Commitments Continued

Industries' involvement with environmental liabilities arising out of the contamination of the Fox River:

109. NCR has taken the position that, under the terms of a 1998 Settlement Agreement between it, Appvion and Industries, and a 2005 arbitration award, Industries and Appvion generally had a joint and several obligation to bear 60% of the Fox River environmental remediation costs imposed on NCR and of any amounts NCR has to pay in respect of other PRPs' contribution claims. BAT has not acknowledged any such liability to NCR and has defences to such claims. Further, under the terms of the Funding Agreement (described below), any dispute between Industries and NCR as to the final amount of any NCR claim against Industries in respect of the Fox River (if any) can only be determined at the later of (i) the completion of Fox River remediation works or (ii) the final resolution and exhaustion of all possible appeals in proceedings brought against Sequana, PricewaterhouseCoopers LLP (PwC) and other former advisers.
110. Until May 2012, Appvion and Windward Prospects Limited (Windward) (another former Group subsidiary) had paid a 60% share of the clean-up costs. Industries was never required to contribute. Around that time, Appvion refused to continue to pay clean-up costs, leading to NCR demanding that Industries pay a 60% share.
111. Industries commenced proceedings against Windward and Appvion in December 2011 seeking indemnification in respect of any liability it might have to NCR (the English Indemnity Proceedings) pursuant to a 1990 de-merger agreement between those parties.

Funding Agreement of 30 September 2014

112. On 30 September 2014, Industries entered into a Funding Agreement with Windward, Appvion, NCR and BTI 2014 LLC (BTI) (a wholly-owned subsidiary of Industries). Pursuant to the Funding Agreement, the English Indemnity Proceedings and a counterclaim Appvion had brought in those proceedings, as well as an NCR-Appvion arbitration concerning Appvion's indemnity to NCR, were discontinued as part of an overall agreement between the parties providing a framework through which they would together fund the ongoing costs of the Fox River clean-up. Under the agreement, NCR has agreed to accept funding by Industries at the lower level of 50% of the ongoing clean-up related costs of the Fox River (rather than the 60% referenced above). This remains subject to an ability to litigate at a later stage the extent of Industries' liability in relation to Fox River clean-up related costs (including in respect of the 50% of costs that Industries has paid under the Funding Agreement to date). In addition, Windward has contributed US\$10 million (approximately £7 million) of funding and Appvion has contributed US\$25 million (approximately £18 million) for Fox River and agreed to contribute US\$25 million (approximately £18 million) for the Kalamazoo River (see further below). Appvion entered Chapter 11 bankruptcy protection on 1 October 2017.
113. The parties also agreed to cooperate in order to maximise recoveries from certain claims made against third parties, including (i) a claim commenced by Windward in the High Court of England & Wales (the High Court) against Sequana and the former Windward directors (the Windward Dividend Claim). That claim was assigned to BTI under the Funding Agreement, and relates to dividend payments made by Windward to Sequana of around €443 million (approximately £397 million) in 2008 and €135 million (approximately £121 million) in 2009 (the Dividend Payments) and (ii) a claim commenced by Industries directly against Sequana to recover
- the value of the Dividend Payments alleging that the dividends were paid for the purpose of putting assets beyond the reach of Windward's creditors (including Industries) (the BAT section 423 Claim) (together, the Sequana Proceedings).
114. The Windward Dividend Claim and BAT section 423 Claim were heard together in the High Court, with judgment handed down on 11 July 2016. The court upheld the BAT section 423 Claim and, by way of a consequential judgment dated 10 February 2017, ordered that Sequana pay to BTI an amount up to the full value of the 2009 Dividend plus interest, which equates to around US\$185 million (approximately £135 million). The Court dismissed the Windward Dividend Claim.
115. The parties pursued cross appeals on the judgment, during which time Sequana was granted a stay in respect of the above payments. That stay was lifted in May 2017, three months after Sequana had entered into an insolvency process in France seeking court protection (the *Sauvegarde*). On 15 May 2019, the Nanterre Commercial Court made an order placing Sequana into formal liquidation proceedings (*liquidation judiciaire*). To date, Industries has not received any payments from Sequana.
116. On 6 February 2019 the Court of Appeal gave judgment upholding the High Court's findings, with one immaterial change to the method of calculating the damages awarded. Sequana therefore remains liable to pay approximately US\$185 million (approximately £135 million). Because of Sequana's ongoing insolvency process, execution of that judgment is stayed. The Court of Appeal dismissed BTI's appeal in relation to the Windward Dividend Claim. The Court of Appeal also dismissed Sequana's application for permission to appeal the High Court's costs order in favour of Industries. Sequana therefore remains liable to pay around £10 million in costs to Industries.
117. All parties to the appeal sought permission from the Court of Appeal for a further appeal to the UK Supreme Court. On 31 July 2019, BTI was granted permission to appeal to the Supreme Court. On the same day, the Supreme Court refused Sequana permission to appeal. The hearing of BTI's appeal was listed to take place on 25 and 26 March 2020 but was adjourned because of the Covid-19 pandemic. The hearing is now listed to take place on 4 and 5 May 2021.
118. BTI has brought claims against certain of Windward's former advisers, including Windward's auditors at the time of the dividend payments, PwC (which claims were also assigned to BTI under the Funding Agreement). The claim had been stayed pending the outcome of the Sequana Proceedings. Once that stay was lifted, PwC applied to strike-out BTI's claim. A hearing of this application took place in October 2019. On 15 November 2019, the court dismissed PwC's application. The court granted PwC permission to appeal in respect of part of its dismissal of the application and the hearing of that appeal was heard by the Court of Appeal on 27 and 28 October 2020. On 11 January 2021, the Court of Appeal handed down judgment dismissing PwC's appeal. The Court of Appeal also refused PwC's application for permission to appeal to the Supreme Court and made an order requiring PwC to file its Defence within two months of 11 January 2021. PwC has subsequently applied directly to the Supreme Court for permission to appeal the Court of Appeal's decision.
119. An agreed stay is also in place in respect of BTI's separate assigned claim against Freshfields Bruckhaus Deringer.

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27 Contingent Liabilities and Financial Commitments Continued

120. The sums Industries has agreed to pay under the Funding Agreement are subject to ongoing adjustment, as clean-up costs can only be estimated in advance of the work being carried out and as certain sums payable are the subject of ongoing US litigation. In 2019, Industries paid £32 million in respect of clean-up costs and is potentially liable for further costs associated with the clean-up. From January through December 2020, Industries paid £2 million. Industries has a provision of £70 million which represents the current best estimate of its exposure – see note 20.

Kalamazoo

121. NCR is also being pursued by Georgia-Pacific, a designated PRP in respect of the Kalamazoo River in Michigan, in relation to remediation costs caused by PCBs released into that river.
122. On 26 September 2013, the Michigan Court held that NCR was liable as a PRP on the basis that it had arranged for the disposal of hazardous material for the purposes of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA).
123. The second phase of the Kalamazoo trial to determine the apportionment of liability amongst PRPs took place between September and December 2015. On 29 March 2018, Judge Jonker ordered that NCR pay 40% of Georgia-Pacific past costs (around US\$22 million (approximately £16 million)). The question of future remediation costs was not determined.
124. The parties commenced appeal proceedings against the judgment in July 2018. NCR also agreed an appeal bond with Georgia-Pacific to prevent enforcement of the judgment while it remained subject to appeal.
125. It is anticipated that NCR will look to Industries to pay 60% of any sums it becomes liable to pay to Georgia-Pacific on the basis, it would be asserted, that the river constitutes a 'Future Site' for the purposes of the Settlement Agreement. The Funding Agreement described above does not resolve any such claims, but does provide an agreed mechanism pursuant to which any surplus from the valuable recoveries of any third-party claims that remains after all Fox River related clean-up costs have been paid and Industries and NCR have been made whole may be applied towards Kalamazoo clean-up costs, in the event that NCR were to be successful in any claim for a portion of them from Industries or Appvion (subject to Appvion's cap, described below). Industries has defences to any claims made by NCR in relation to the Kalamazoo River. No such claims have been made against Industries.
126. Industries also anticipates that NCR may seek to recover from Appvion (subject to a cap of US\$25 million (approximately £18 million)) for 'Future Sites' under the Funding Agreement. The basis of the recovery would be the same as any demand NCR may make on Industries. Appvion entered Chapter 11 bankruptcy protection on 1 October 2017. The effect of the Chapter 11 proceedings on Appvion's liability for Future Sites payments under the Funding Agreement is currently uncertain.

127. On 11 December 2019, NCR announced that it had entered into a Consent Decree with the US Government and the State of Michigan, pursuant to which it assumed liability for certain remediation work at the Kalamazoo River. This Consent Decree was approved by the District Court for the Western District of Michigan on 2 December 2020. The payments to be made on the face of the Consent Decree in respect of such work total approximately US\$245 million (approximately £179 million). The Consent Decree also provides for the withdrawal of NCR's appeal against Georgia-Pacific, and payment by NCR of the outstanding judgment against it of approximately US\$20 million (approximately £15 million) to Georgia-Pacific.

128. The quantum of the clean-up costs for the Kalamazoo River is presently unclear. It may well exceed the amounts which are payable on the face of the Consent Decree.

129. As detailed above, Industries is taking active steps to protect its interests, including seeking to procure the repayment of the Windward dividends, pursuing the other valuable claims that are now within its control, and working with the other parties to the Funding Agreement to maximise recoveries from third parties with a view to ensuring that amounts funded towards clean-up related costs are later recouped under the agreed repayment mechanisms under the Funding Agreement.

Other environmental matters

130. Reynolds American and its subsidiaries are subject to federal, state and local environmental laws and regulations concerning the discharge, storage, handling and disposal of hazardous or toxic substances. Such laws and regulations provide for significant fines, penalties and liabilities, sometimes without regard to whether the owner or operator of the property or facility knew of, or was responsible for, the release or presence of hazardous or toxic substances. In addition, third parties may make claims against owners or operators of properties for personal injuries and property damage associated with releases of hazardous or toxic substances. In the past, RJRT has been named a PRP with third parties under CERCLA with respect to several superfund sites. Reynolds American and its subsidiaries are not aware of any current environmental matters that are expected to have a material adverse effect on the business, results of operations or financial position of Reynolds American or its subsidiaries.

Criminal investigations

131. The Group has been investigating, and is aware of governmental authorities' investigations into, allegations of misconduct. The Group is cooperating with the authorities' investigations, including the DOJ and OFAC in the United States, which are conducting an investigation into suspicions of breach of sanctions. In January 2021, the Group was informed that the investigation by UK's Serious Fraud Office (the SFO) into suspicions of corruption in the conduct of business by Group companies and associated persons had been closed. The SFO stated that it would continue to offer assistance to the ongoing investigations of other law enforcement partners.
132. The potential for fines, penalties or other consequences cannot currently be assessed. As the investigations are ongoing, it is not yet possible to identify the timescale in which these matters might be resolved.



27 Contingent Liabilities and Financial Commitments Continued

Closed litigation matters

133. The following matters on which the Company reported in the contingent liabilities and financial commitments note 27 to the Company's 2019 financial statements have been dismissed, concluded or resolved as noted below:

Matter	Jurisdiction	Companies named as Defendants	Description	Disposition
Vuse Litigation (Whatcom County)	USA	Reynolds American, RJR Vapor, the Company, Lorillard LLC and LOEC Inc.	Public Nuisance	Voluntary dismissal by plaintiff
Cyprus competition investigation	Cyprus	B.A.T. (Cyprus) Ltd	Investigation	Investigation ended without liability to B.A.T. (Cyprus) Ltd

General Litigation Conclusion

134. While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Group believes that the defences of the Group's companies to all these various claims are meritorious on both the law and the facts, and a vigorous defence is being made everywhere.
135. As indicated above, on 1 March 2019 the Quebec Court of Appeal released its appeal judgment. The trial judgment was largely upheld by a unanimous decision of the five-member panel including the requirement that the defendants deposit the initial deposits in their solicitors' trust accounts within 60 days. This is the only executory aspect of the judgment. In these circumstances we are of the view that it is more likely than not that there will be an outlay and it is reasonably estimable at CAD \$758 million (approximately £436 million), the amount of the initial deposit paid into court. If further adverse judgments are entered against any of the Group's companies in any case, avenues of appeal will be pursued. Such appeals could require the appellants to post appeal bonds or substitute security (as has been necessary in Quebec) in amounts which could in some cases equal or exceed the amount of the judgment. At least in the aggregate, and despite the quality of defences available to the Group, it is not impossible that the Group's results of operations or cash flows in any particular period could be materially adversely affected by the impact of a significant increase in litigation, difficulties in obtaining the bonding required to stay execution of judgments on appeal, or any final outcome of any particular litigation.
136. Having regard to all these matters, with the exception of the Quebec Class Actions, Fox River and certain *Engle* progeny cases identified above, the Group does not consider it appropriate to make any provision in respect of any pending litigation because the likelihood of any resulting material loss, on an individual case basis, is not considered probable and/or the amount of any such loss cannot be reasonably estimated. Notwithstanding the negative decision in the Quebec Class Actions, the Group does not believe that the ultimate outcome of this litigation will significantly impair the Group's financial condition. If the facts and circumstances change and result in further unfavourable outcomes in the pending litigation, then there could be a material impact on the financial statements of the Group.

Other contingencies

137. *JTI Indemnities*. By a purchase agreement dated 9 March 1999, amended and restated as of 11 May 1999, referred to as the 1999 Purchase Agreement, R.J. Reynolds Tobacco Holdings, Inc. (RJR) and RJRT sold their international tobacco business to JTI. Under the 1999 Purchase Agreement, RJR and RJRT retained certain liabilities relating to the international tobacco business sold to JTI, and agreed to indemnify JTI against: (i) any liabilities, costs and expenses arising out of the imposition or assessment of any tax with respect to the international tobacco business arising prior to the sale, other than as reflected on the closing balance sheet; (ii) any liabilities, costs and expenses that JTI or any of its affiliates, including the acquired entities, may incur after the sale with respect to any of RJR's or RJRT's employee benefit and welfare plans; and (iii) any liabilities, costs and expenses incurred by JTI or any of its affiliates arising out of certain activities of Northern Brands.
138. RJRT has received claims for indemnification from JTI, and several of these have been resolved. Although RJR and RJRT recognise that, under certain circumstances, they may have other unresolved indemnification obligations to JTI under the 1999 Purchase Agreement, RJR and RJRT disagree what circumstances described in such claims give rise to any indemnification obligations by RJR and RJRT and the nature and extent of any such obligation. RJR and RJRT have conveyed their position to JTI, and the parties have agreed to resolve their differences at a later date.
139. *ITG Indemnity*. In the Divestiture, Reynolds American agreed to defend and indemnify, subject to certain conditions and limitations, ITG in connection with claims relating to the purchase or use of one or more of the Winston, Kool, Salem or Maverick cigarette brands on or before 12 June 2015, as well as in actions filed before 13 June 2023, relating to the purchase or use of one or more of the Winston, Kool, Salem or Maverick cigarette brands. In the purchase agreement relating to the Divestiture, ITG agreed to defend and indemnify, subject to certain conditions and limitations, Reynolds American and its affiliates in connection with claims relating to the purchase or use of 'blu' brand e-cigarettes. ITG also agreed to defend and indemnify, subject to certain conditions and limitations, Reynolds American and its affiliates in actions filed after 12 June 2023, relating to the purchase or use of one or more of the Winston, Kool, Salem or Maverick cigarette brands after 12 June 2015. ITG has tendered a number of actions to Reynolds American under the terms of this indemnity, and Reynolds American has, subject to a reservation of rights, agreed to defend and indemnify ITG pursuant to the terms of the indemnity. Reynolds American has tendered an action to ITG under the terms of this indemnity, and ITG has, subject to a reservation of rights, agreed to defend and indemnify Reynolds American and its affiliates pursuant to the terms of the indemnity. These claims are substantially similar in nature and extent to claims asserted directly against RJRT in similar actions.

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27 Contingent Liabilities and Financial Commitments Continued

140. *Loews Indemnity.* In 2008, Loews Corporation (Loews), entered into an agreement with Lorillard Inc., Lorillard Tobacco, and certain of their affiliates, which agreement is referred to as the 'Separation Agreement'. In the Separation Agreement, Lorillard agreed to indemnify Loews and its officers, directors, employees and agents against all costs and expenses arising out of third-party claims (including, without limitation, attorneys' fees, interest, penalties and costs of investigation or preparation of defence), judgments, fines, losses, claims, damages, liabilities, taxes, demands, assessments, and amounts paid in settlement based on, arising out of or resulting from, among other things, Loews' ownership of or the operation of Lorillard and its assets and properties, and its operation or conduct of its businesses at any time prior to or following the separation of Lorillard and Loews (including with respect to any product liability claims). Loews is a defendant in three pending product liability actions, each of which is a putative class action. Pursuant to the Separation Agreement, Lorillard is required to indemnify Loews for the amount of any losses and any legal or other fees with respect to such cases. Following the closing of the Lorillard merger, RJRT assumed Lorillard's obligations under the Separation Agreement as was required under the Separation Agreement.
141. *SFRTI Indemnity.* In connection with the 13 January 2016 sale by Reynolds American of the international rights to the Natural American Spirit brand name and associated trademarks, along with SFR Tobacco International GmbH (SFRTI) and other international companies that distributed and marketed the brand outside the United States, to JT International Holding BV (JTI Holding), each of SFNTC, R. J. Reynolds Global Products, Inc., and R. J. Reynolds Tobacco B.V. agreed to indemnify JTI Holding against, among other things, any liabilities, costs, and expenses relating to actions (i) commenced on or before (a) 13 January 2019, to the extent relating to alleged personal injuries, and (b) in all other cases, 13 January 2021; (ii) brought by (a) a governmental authority to enforce legislation implementing European Union Directive 2001/37/ EC or European Directive 2014/40/EU or (b) consumers or a consumer association; and (iii) arising out of any statement or claim (a) made on or before 13 January 2016, (b) by any company sold to JTI Holding in the transaction, (c) concerning Natural American Spirit brand products consumed or intended to be consumed outside of the United States and (d) that the Natural American Spirit brand product is natural, organic, or additive free. Under the terms of this indemnity, JTI has requested indemnification from Santa Fe Natural Tobacco Company Germany GmbH (SFNTCG) in connection with an audit of SFNTCG relating to transfer pricing for the tax years 2007 to 2010 and 2012 to 2015. SFNTCG contests the audit results. The amount in dispute is approximately €21 million plus interest (approximately £19 million).
142. *Indemnification of Distributors and Retailers.* RJRT, Lorillard Tobacco, SFNTC, American Snuff Co. and RJR Vapor have entered into agreements to indemnify certain distributors and retailers from liability and related defence costs arising out of the sale or distribution of their products. Additionally, SFNTC has entered into an agreement to indemnify a supplier from liability and related defence costs arising out of the sale or use of SFNTC's products. The cost has been, and is expected to be, insignificant. RJRT, SFNTC, American Snuff Co. and RJR Vapor believe that the indemnified claims are substantially similar in nature and extent to the claims that they are already exposed to by virtue of their having manufactured those products.
143. Except as otherwise noted above, Reynolds American is not able to estimate the maximum potential of future payments, if any, related to these indemnification obligations.
144. *Competition Investigations.* There are instances where Group companies are cooperating with relevant national competition authorities in relation to ongoing competition law investigations and/or engaged in legal proceedings at the appellate level, including (amongst others) in Ukraine and Netherlands.

Tax disputes

The Group has exposures in respect of the payment or recovery of a number of taxes. The Group is and has been subject to a number of tax audits covering, amongst others, excise tax, value added taxes, sales taxes, corporate taxes, withholding taxes and payroll taxes.

The estimated costs of known tax obligations have been provided in these accounts in accordance with the Group's accounting policies. In some countries, tax law requires that full or part payment of disputed tax assessments be made pending resolution of the dispute. To the extent that such payments exceed the estimated obligation, they would not be recognised as an expense. While the amounts that may be payable or receivable in relation to tax disputes could be material to the results or cash flows of the Group in the period in which they are recognised, the Board does not expect these amounts to have a material effect on the Group's financial condition.

The following matters are in or may proceed to litigation:

Corporate taxes

Brazil

The Brazilian Federal Tax Authority has filed claims against Souza Cruz seeking to reassess the profits of overseas subsidiaries to corporate income tax and social contribution tax. The reassessments are for the years 2004 until and including 2012 for a total amount of BRL1,778 million (£250 million) to cover tax, interest and penalties.

Souza Cruz appealed all reassessments. Regarding the first assessments (2004-2006) Souza Cruz's appeals were rejected by the ultimate Administrative Court after which Souza Cruz filed two lawsuits with the Judicial Court to appeal the reassessments. The judgment in respect of the reassessment of corporate income tax has been decided in favour of Souza Cruz by the first level of the Judicial Court and Souza Cruz is waiting to see whether the Brazilian Tax Authorities will appeal the judgment. The lawsuit appealing the social contribution tax is pending judgment in the first level of the Judicial Court. The appeal against the second assessments (2007 and 2008) was upheld at the second tier tribunal and was closed. In 2015, a further reassessment for the same period (2007 and 2008) was raised after the five-year statute of limitation which has been appealed against.

Souza Cruz received further reassessments in 2014 for the 2009 calendar year and in 2015 an assessment for the 2010 calendar year. Souza Cruz appealed both the reassessments in full. In December 2016, assessments were received for the calendar years 2011 and 2012 which have also been appealed.



27 Contingent Liabilities and Financial Commitments Continued

Netherlands

The Dutch tax authority has issued a number of assessments on various issues across the years 2003-2016 in relation to various intra-group transactions. The assessments amount to an aggregate net liability across these periods of £1,220 million covering tax, interest and penalties. The Group has appealed against the assessments in full.

The Group believes that its companies have meritorious defences in law and fact in each of the above matters and intends to pursue each dispute through the judicial system as necessary. The Group does not consider it appropriate to make provision for these amounts nor for any potential further amounts which may be assessed in relation to these matters in subsequent years.

Indirect and other taxes

Bangladesh

On 25 July 2018, the Appellate Division of the Supreme Court of Bangladesh has reversed the decision of the High Court Division against BAT Bangladesh in respect of the retrospective demands for VAT and Supplementary Duty amounting to approximately £154 million. On 3 February 2020, the certified Court Order was received. The Government filed a Review Petition on 25 March 2020 in the Appellate Division of the Supreme Court of Bangladesh against the judgment. The matter is yet to be taken up for hearing.

Egypt

British American Tobacco Egypt LLC is subject to two ongoing civil cases concerning the imposition of sales tax on low-price category brands brought by the Egyptian tax authority for £122 million. Management believes that the tax claims are unfounded and has appealed the tax claims. These cases are under review by the Council of State. During hearings in August 2020, the courts decided, in both cases, to transfer the files to court appointed experts but these sessions have not yet been scheduled. Progress on the case, and further hearings, have been delayed due to COVID-19.

South Korea

In 2016, the Board of Audit and Inspection of Korea (BAI) concluded its tax assessment in relation to the 2014 year-end tobacco inventory, and imposed additional national excise, local excise, VAT taxes and penalties. This resulted in the recognition of a KRW 80.7 billion (approximately £54 million) charge by Group subsidiaries, BAT Korea Ltd., Rothmans Far East B.V. Korea Branch Office and BAT Korea Manufacturing Ltd. Management deems the tax and penalties to be unfounded and has appealed to the tax tribunal against the assessment. On grounds of materiality and the high likelihood of the tax and penalties being reversed in future, the Group classified the tax and penalties charge as an adjusting item in 2016.

On 23 August 2019, the trial court ruled in favour of Rothmans Far East B.V. Korea Branch Office on KRW 6.7 billion (approximately £5 million), the VAT portion of the assessment; appeals on the other elements of the assessment are still pending at trial court. The Korean government appealed the ruling on 16 September 2019. Management expects the final ruling by the Supreme Court by 2022. Due to the uncertain outcome of the case no asset has been recognised in relation to this ruling.

Turkey

British American Tobacco Tutun Mamulleri Sanayi ve Ticaret Anonim Sirketi (BAT Tutun) has been subject to tax audits on inventory movements for the years 2015, 2016 and 2019. In November 2020, BAT Tutun received a tax assessment amounting to £100 million comprising principal, penalty and interest for the years 2015 and 2016. The Group is not, at the date of this announcement, aware of any assessment in relation to 2019. Management is engaging with the tax authorities on the matter but believes that the tax claims are unfounded.

Brazil

On 15 March 2017, the Brazilian Supreme Court ruled that for all taxpayers VAT (ICMS) should not be included in the calculation of social contribution taxes (PIS/Cofins) which are levied based on revenue. However, the retrospective application of the basis of calculation is subject to an extraordinary appeal and the final decision is expected by 2022.

The Group's Brazilian subsidiary, Souza Cruz, had filed an individual lawsuit to establish that it had overpaid taxes to the government. Based on favourable court decisions in 2020 and 2019 the Group has recognised £58 million (2019: £86 million) in other income representing management's best estimate of the amounts likely to be recovered at this time with the potential for further amounts in future periods.

If the ruling were to be enacted retrospectively for a period of five years, the potential asset is estimated to be around £507 million.



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27 Contingent Liabilities and Financial Commitments Continued

Commitments in relation to service contracts, non-capitalised leases

The total future minimum payments under non-cancellable service contracts based on when payments fall due:

	2020 £m	2019 £m
Service contracts		
Within one year	63	15
Between one and five years	17	20
Beyond five years	6	–
	86	35

Financial commitments arising from short-term leases and leases of low-value assets that are not capitalised under IFRS 16 Leases are £6 million (2019: £10 million) for property and £3 million (2019: £2 million) for plant, equipment and other assets.

Performance guarantees

As part of the acquisition of TDR in 2015, the Group has committed to keeping the manufacturing facility in Kanfanar, Croatia operational for at least five years following completion of the acquisition. The maximum exposure under this guarantee was £42 million at 31 December 2019. These commitments expired during 2020.

28 Interests in Subsidiaries

Subsidiaries with material non-controlling interests

Non-controlling interests principally arise from the Group's listed investment in Malaysia (British American Tobacco (Malaysia) Berhad), where the Group held 50% of the listed holding company in 2020, 2019 and 2018. The Group has assessed that it exercises de facto control over Malaysia as it has the practical ability to direct the business through effective control of the Company's Board as a result of the Group controlling the largest shareholding block in comparison to other shareholdings which are widely dispersed. Summarised financial information for Malaysia is shown below as required by IFRS 12. As part of the Group's reporting processes, Malaysia report consolidated financial information for the Malaysia group which has been adjusted to comply with Group accounting policies which may differ to local accounting practice. Goodwill in respect of Malaysia, which arose as a result of the acquisition of the Rothmans group referred to in note 8, has not been included as part of the net assets below. In addition, no adjustments have been made to the information below for the elimination of intercompany transactions and balances with the rest of the Group.

Summarised financial information	2020 £m	2019 £m	2018 £m
Revenue	162	191	231
Profit for the year	45	65	87
– Attributable to non-controlling interests	22	33	43
Total comprehensive income	46	65	87
– Attributable to non-controlling interests	23	33	43
Dividends paid to non-controlling interests	(24)	(36)	(40)
Summary net assets:			
Non-current assets	14	20	16
Current assets	120	97	116
Non-current liabilities	(5)	(4)	–
Current liabilities	(137)	(117)	(129)
Total equity at the end of the year	(8)	(4)	3
– Attributable to non-controlling interests	(4)	(2)	1
Net cash generated from operating activities	40	61	86
Net cash used in investing activities	–	–	(2)
Net cash used in financing activities	(35)	(73)	(77)
Differences on exchange	–	–	1
Increase/(decrease) in net cash and cash equivalents	5	(12)	8
Net cash and cash equivalents at 1 January	(2)	10	2
Net cash and cash equivalents at 31 December	3	(2)	10

28 Interests in Subsidiaries Continued

Subsidiaries subject to restrictions:

As a result of the Group's Canadian subsidiary, Imperial Tobacco Canada (ITCAN), entering CCAA protection, the assets of ITCAN are subject to restrictions. The table below summarises the assets and liabilities of ITCAN:

Summarised financial information	2020 £m	2019 £m
Non-current assets	2,354	2,403
Current assets	1,251	768
Non-current liabilities	(132)	(131)
Current liabilities	(528)	(447)
	2,945	2,593

Under the terms of CCAA, the court has appointed FTI Consulting Canada Inc. to act as a monitor. This monitor has no operational input and is not involved in the management of the business. The Group considers that ITCAN continues to meet the requirements of IFRS 10 *Consolidated Financial Statements*, and, until such requirements are not met, the Group will continue to consolidate the results of ITCAN.

Whilst the Group continues to control the operations of its Canadian subsidiary, there are restrictions over the ability to access or use certain assets including the ability to remit dividends. Included in current assets are cash and cash equivalents of £992 million, of which £878 million is restricted (2019: £595 million, £445 million of which was restricted) (note 17) and inventories of £114 million (2019: £117 million). Included in non-current assets for 2020 and 2019 is goodwill of £2.3 billion subject to impairment reviews (note 8). Included in current liabilities are trade and other payables of £284 million (2019: £310 million), the majority of which are amounts payable in respect of duties and excise. Refer to note 27 for information on the Quebec Class Actions.

Other shareholdings

The Group holds 92% of the equity shares of PT Bentoel Internasional Investama Tbk (Bentoel). In 2011, the Group sold 984 million shares, representing approximately 14% of Bentoel's share capital, for the purposes of fulfilling certain obligations pursuant to Bapepam LK (Indonesia) takeover regulations. The Group simultaneously entered into a total return swap on 971 million of the shares. In June 2016, the Group and other investors participated in a rights issue by Bentoel, with the Group increasing its stake in Bentoel to 92%. Simultaneously, the Group amended the total return swap to take account of an additional 1,684 million shares. The shares subject to the total return swap now represent 7% of Bentoel's issued capital. While the Group does not have legal ownership of these shares, it retains the risks and rewards associated with them which results in the Group continuing to recognise an effective interest in 99% of Bentoel's net assets and results.

Refer to note 10 for information on the Group's 42% investment in Tisak d.d..



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29 Summarised Financial Information

The following summarised financial information is required by the rules of the Securities and Exchange Commission and has been prepared as a requirement of the Regulation S-X 3-10 in respect of the guarantees of:

The financial information relates to the guarantees of:

- US\$12.35 billion of outstanding bonds issued by B.A.T Capital Corporation (BATCAP) in connection with the acquisition of Reynolds, including registered bonds issued in exchange for the initially issued bonds (the 2017 Bonds);
- US\$10.65 billion of outstanding bonds issued by BATCAP pursuant to the Shelf Registration Statement on Form F-3 filed on July 17, 2019, pursuant to which BATCAP or BATIF may issue an indefinite amount of debt securities; and
- US\$1.50 billion of outstanding bonds issued by BATIF pursuant to the Shelf Registration Statement on Form F-3 filed on July 17, 2019, pursuant to which BATCAP or BATIF may issue an indefinite amount of debt securities.

As of July 28, 2020, all relevant Group entities suspended their reporting obligations with respect to the US\$7.7 billion (2019: US\$10.3 billion) of Reynolds unsecured notes and US\$40.9 million (2019: US\$149.5 million) of Lorillard unsecured notes. As such, no summarised financial information is provided with respect to these securities.

As described below, Reynolds American Inc. (Reynolds American) is a subsidiary guarantor of all outstanding series of BATCAP and BATIF bonds. Under the terms of the indentures governing such notes, any subsidiary guarantor (including Reynolds American) other than BATCAP or BATIF, as applicable, BATNF and BATHTN, will automatically and unconditionally be released from all obligations under its guarantee, and such guarantee shall thereupon terminate and be discharged and of no further force or effect, in the event that (1) its guarantee of all then outstanding notes issued under the Group's EMTN Programme is released or (2) at substantially the same time its guarantee of the debt securities is terminated, such subsidiary guarantor is released from all obligations in respect of indebtedness for borrowed money for which such subsidiary guarantor is an obligor (as a guarantor or borrower). Under the EMTN Programme, Reynolds American's guarantee is released if at any time the aggregate amount of indebtedness for borrowed money, subject to certain exceptions, for which Reynolds American is an obligor does not exceed 10% of the outstanding long-term debt of BAT as reflected in the balance sheet included in BAT's most recent publicly released interim or annual consolidated financial statements.

Reynolds American's guarantee may be released notwithstanding Reynolds guaranteeing other indebtedness, provided Reynolds American's guarantee of outstanding notes issued under the EMTN Programme is released. If Reynolds American's guarantee is released, BAT is not required to replace such guarantee, and the debt securities will have the benefit of fewer subsidiary guarantees for the remaining maturity of the debt securities.

Note: The following summarised financial information report the unconsolidated contribution of each applicable company to the Group's consolidated results and not the separate financial statements for each applicable company as local financial statements are prepared in accordance with local legislative requirements and may differ from the financial information provided below. In particular, in respect of the United States region, all financial statements and financial information provided by or with respect to the US business or RAI (and/ or RAI and its subsidiaries (collectively, the Reynolds Group)) are prepared on the basis of US GAAP and constitute the primary financial statements or financial information of the US business or RAI (and/or the Reynolds Group). Solely for the purpose of consolidation within the results of BAT p.l.c. and the BAT Group, this financial information is then converted to IFRS. To the extent any such financial information provided in these financial statements relates to the US business or RAI (and/or the Reynolds Group), it is provided as an explanation of the US business's or RAI's (and/or the Reynolds Group's) primary US GAAP based financial statements and information.

The subsidiaries disclosed below are wholly-owned and the guarantees provided are full and unconditional, and joint and several:

- British American Tobacco p.l.c. (as the parent guarantor), referred to as 'BAT p.l.c.' in the financials below;
- B.A.T Capital Corporation (as an issuer or a subsidiary guarantor, as the case may be), referred to as 'BATCAP' in the financials below;
- B.A.T. International Finance p.l.c. (as an issuer or a subsidiary guarantor, as the case may be), referred to as 'BATIF' in the financials below;
- B.A.T. Netherlands Finance B.V. (as a subsidiary guarantor), referred to as 'BATNF' in the financials below;
- Reynolds American Inc. (as a subsidiary guarantor), referred to as 'RAI' in the financials below; and
- British American Tobacco Holdings (The Netherlands) B.V. (as a subsidiary guarantor of the 2017 Bonds only), referred to as 'BATHTN' in the financials below.



29 Summarised Financial Information Continued

In accordance with Regulation S-X 13-01, information in respect of investments in subsidiaries that are not issuers or guarantors has been excluded from non-current assets as shown in the balance sheet table below. The "BATHTN" column in the summarised financial information is only applicable in the context of the 2017 Bonds. British American Tobacco Holdings (The Netherlands) B.V. ("BATHTN") is not an issuer nor guarantor of any of the other securities referenced in this note. None of the issuers or other guarantors has material balances with or an investment in BATHTN. Investments in subsidiaries represents share capital acquired in relation to or issued by subsidiary undertakings.

Year ended 31 December 2020	Summarised Financial Information					
	BAT p.l.c. £m	BATCAP £m	BATIF £m	BATNF £m	RAI £m	BATHTN £m
Income Statement						
Revenue	–	–	–	–	–	–
(Loss)/profit from operations	(112)	(1)	(2)	–	(5)	–
Dividend income	5,050	–	–	–	4,845	224
Net finance income/(costs)	131	417	174	–	(758)	1
Profit/(loss) before taxation	5,069	416	172	–	4,082	225
Taxation on ordinary activities	(14)	(101)	4	–	170	–
Profit/(loss) for the year	5,055	315	176	–	4,252	225
Intercompany Transactions – Income Statement						
Transactions with non-issuer/non-guarantor subsidiaries income/(expense)	(118)	(1)	4	–	22	–
Transactions with non-issuer/non-guarantor subsidiaries net finance income/(cost)	5	996	747	–	32	–
Dividend income from non-issuer/non-guarantor subsidiaries	5,050	–	–	–	4,845	224

Year ended 31 December 2019	Summarised Financial Information					
	BAT p.l.c. £m	BATCAP £m	BATIF £m	BATNF £m	RAI £m	BATHTN £m
Income Statement						
Revenue	–	–	–	–	–	–
Loss from operations	(125)	(2)	(5)	–	(2)	(5)
Dividend income	6,090	–	–	–	3,993	195
Net finance income/(costs)	121	154	195	–	(497)	1
Profit/(loss) before taxation	6,086	152	190	–	3,494	191
Taxation on ordinary activities	–	(35)	8	–	125	1
Profit/(loss) for the year	6,086	117	198	–	3,619	192
Intercompany Transactions – Income Statement						
Transactions with non-issuer/non-guarantor subsidiaries (expense)/income	(125)	(2)	(5)	–	19	–
Transactions with non-issuer/non-guarantor subsidiaries net finance income/(cost)	12	773	563	–	33	–
Dividend income from non-issuer/non-guarantor subsidiaries	6,090	–	–	–	3,993	195

Financial Statements

Notes on Accounts
Continued

29 Summarised Financial Information Continued

As at 31 December 2020	Summarised Financial Information					
	BAT p.l.c. £m	BATCAP £m	BATIF £m	BATNF £m	RAI £m	BATHTN £m
Balance Sheet						
Non-current assets	236	18,991	10,332	1,509	402	26
Current assets	7,070	3,404	30,601	22	268	15
Non-current liabilities	1,580	17,867	15,326	1,509	8,885	6
Non-current borrowings	1,571	17,867	15,243	1,509	8,823	–
Other non-current liabilities	9	–	83	–	62	6
Current liabilities	52	4,444	24,038	22	972	2
Current borrowings	9	4,329	23,478	22	200	1
Other current liabilities	43	115	560	–	772	1
Intercompany Transactions – Balance Sheet						
Amounts due from non-issuer/non-guarantor subsidiaries	7,031	16,088	38,761	–	620	15
Amounts due to non-issuer/non-guarantor subsidiaries	3	3,139	19,550	–	62	1
Investment in subsidiaries (that are not issuers or guarantors)	27,234	–	718	–	23,820	1,580

As at 31 December 2019	Summarised Financial Information					
	BAT p.l.c. £m	BATCAP £m	BATIF £m	BATNF £m	RAI £m	BATHTN £m
Balance Sheet						
Non-current assets	236	12,722	16,188	–	439	39
Current assets	6,732	6,379	25,441	–	749	16
Non-current liabilities	1,580	15,405	14,918	–	6,864	10
Non-current borrowings	1,571	15,168	14,590	–	6,741	–
Other non-current liabilities	9	237	328	–	123	10
Current liabilities	139	3,800	25,273	–	3,590	3
Current borrowings	13	3,706	24,816	–	2,979	1
Other current liabilities	126	94	457	–	611	2
Intercompany Transactions – Balance Sheet						
Amounts due from non-issuer/non-guarantor subsidiaries	6,690	15,415	38,851	–	1,160	16
Amounts due to non-issuer/non-guarantor subsidiaries	101	2,773	19,190	–	81	1
Investment in subsidiaries (that are not issuers or guarantors)	27,234	–	718	–	24,012	1,419

30 Accounting Policy Changes

Adoption of new accounting standards effective 1 January 2019: Adoption of IFRS 16

Adoption of IFRS 16

With effect from 1 January 2019, the Group adopted IFRS 16 *Leases* with no revision of prior periods, as permitted by the Standard. In accordance with IFRS 16, the distinction between operating leases and finance leases for lessees has been removed.

On the initial implementation of the Standard, previously recognised operating leases were capitalised as right-of-use assets and financial liabilities were recognised at the same initial value. The Group took advantage of certain practical expedients available under the Standard including:

- ‘grandfathering’ previously recognised lease arrangements;
- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- assessing whether a lease is onerous prior to applying the Standard;
- applying hindsight in determining the lease term if the contract contains options to extend or terminate the lease; and
- not applying the capitalisation requirements of the Standard to leases for which the lease term ends within 12 months of the date of initial application.

The impact of IFRS 16 to the Group’s balance sheet at 1 January 2019 was the capitalisation of £610 million of right-of-use assets and lease liabilities of £607 million. The weighted average incremental borrowing rate applied in discounting lease commitments at that date was 5.60%. The impact of IFRS 16 to the Group’s results and equity in 2019 was not material.

Adoption of new accounting standards effective 1 January 2018: Adoption of IFRS 9

Adoption of IFRS 9

With effect from 1 January 2018, the Group adopted IFRS 9 *Financial Instruments* with no restatement of prior periods, as permitted by the Standard. The cumulative impact of adopting the Standard, including the effect of tax entries, was recognised as a restatement of opening reserves in 2018, and was £38 million, arising from the impairment of financial assets under the expected loss model.



Financial Statements

Group Companies and Undertakings

This disclosure is made in accordance with Section 409 of the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015. A full list of subsidiary undertakings, associates and joint ventures and joint operations as defined by IFRS (showing the country of incorporation, effective percentage of equity shares held and full registered office addresses) as at 31 December 2020 is disclosed below.

The subsidiary undertakings that are held directly by British American Tobacco p.l.c. (the ultimate Parent Company) are indicated thus*; all others are held by sub-holding companies.

Unless otherwise stated, the equity shares held are in the form of ordinary shares or common stock, except for those indicated thus#, which include preference shares. The effective percentage of equity shares held in subsidiary undertakings is 100% unless otherwise stated. Further, where the effective percentage of equity shares held by the sub-holding company is different from that held by British American Tobacco p.l.c., the percentage of equity shares held by British American Tobacco p.l.c. is indicated thus^ and is shown after the percentage interest held by the sub-holding company.

The results of a number of these subsidiary undertakings principally affect the financial statements of the Group. These principal subsidiary undertakings are highlighted in grey and are considered to be the main corporate entities in those countries which, in aggregate, contributed 99% of the Group revenue and 100% of profit from operations.

Subsidiary Undertakings

Albania	Austria
Rruga e Kavajes, Ish Kombinati Ushqimor, Tirana, Albania	Dr. Karl Lueger Platz 5, 1010, Wien, Austria
British American Tobacco – Albania SH.P.K.	British American Tobacco (Austria) GmbH
Algeria	Bahrain
Industrial Zone, Cheraga, El Omrane, Ouled Fayet Road, Lot 04 Ilot 789, Algiers, Algeria	Flat 2115, Building 2504, Road 2832, Block 428 Al Seef Area, Kingdom of Bahrain
British American Tobacco (Algérie) S.P.A. (51%)	British American Tobacco Middle East S.P.C.
Angola	Bangladesh
Viana Park, Polo Industrial, Viana, Luanda, Angola	New DOHS Road, Mohakhali, Dhaka 1206, Bangladesh
British American Tobacco – B.A.T. Angola, Limitada ¹	British American Tobacco Bangladesh Company Limited (72.91%)
Sociedade Geral de Distribuição e Comércio, Limitada	Barbados
Sociedade Industrial Tabacos Angola LDA (76.60%)	Braemar Court, Deighton Road, St. Michael, Barbados
Sociedade Unificada Tabacos Angola LDA (76.39%)	B.C.O., Inc
Argentina	Chancery Chambers, Chancery House, High Street, Bridgetown, Barbados
San Martín 140, Floor 14, City of Buenos Aires, Argentina	Southward Insurance Ltd.
BAT Operaciones S.A.U.	Belarus
British American Tobacco Argentina S.A.I.C.y F. (99.98%)	7th Floor, 3 Kuprevicha Str., Minsk, 220141, Belarus
Australia	British-American Tobacco Trading Company Foreign Private Trading Unitary Enterprise
166 William Street, Woolloomooloo, NSW 2011, Australia	Belgium
British American Tobacco (Australasia Holdings) Pty Limited	Globe House, 4 Temple Place, London, WC2R 2PG, United Kingdom
British American Tobacco Australasia Limited	British American Tobacco Holdings Belgium N.V.
British American Tobacco Australia Limited	Nieuwe Gentsesteenweg 21, 1702 Groot-Bijgaarden, Belgium
British American Tobacco Australia Overseas Pty Limited	British American Tobacco Belgium N.V.
British American Tobacco Australia Services Limited	Benin
Rothmans Asia Pacific Limited [#]	Cotonou, Lot Numero H19, Quartiers Les Cocotiers, 01 BP 2520, Benin
The Benson & Hedges Company Pty. Limited	British American Tobacco Benin SA
W.D. & H.O. Wills Holdings Limited	Bolivia
	Av. Costanerita 71, Esq. Calle 6, Piso 5, Zona de Obrajes, La Paz, Bolivia
	BAT Bolivia S.R.L.



Bosnia and Herzegovina	3711 St-Antoine West, Montreal, Quebec, H4C 3P6, Canada
Fra Dominka Mandica 24 A, 88220 Široki Brijeg, Bosnia and Herzegovina	Allan Ramsay and Company Limited
IPRESS d.o.o.	Cameo Inc.
ul. Azize Ša'cirbegovi'c 1, 71000 Sarajevo-Novo Sarajevo, Bosnia and Herzegovina	Genstar Corporation ²
TDR d.o.o. Sarajevo	Imperial Brands Limited
ul. Kolodvorska 12, 71000 Sarajevo-Novo Sarajevo, Bosnia and Herzegovina	Imperial Tobacco Products Limited
iNovine BH d.o.o.	Imperial Tobacco Services Inc.
Opresa d.o.o.	John Player & Sons Ltd
Botswana	Liggett & Myers Tobacco Company of Canada Limited (70%) (50%) ³
Plot 20774 Broadhurst Industrial Estate, Gaborone, Botswana	Marlboro Canada Limited
British American Tobacco Botswana (Pty) Limited	Medaillon Inc.
Business Venture Investments Botswana 6773 (Pty) Ltd.	45 O'Connor Street, Suite 1500, Ottawa, Ontario, K1P 1A4, Canada
Brazil	2004969 Ontario Inc.
Avenida República do Chile, nº 330, Bloco 1, Torre Leste, 30º andar, Centro, Rio de Janeiro/RJ - CEP 20.031-170, Brazil	Cayman Islands
Souza Cruz LTDA	Trident Trust Company (Cayman) Ltd., One Capital Place, PO Box 847, Grand Cayman KY1-1103, Cayman Islands
Yolanda Participacoes S.A.	R.J. Reynolds Tobacco (CI), Co.
Brunei Darussalam	Chile
6th Floor, Bang Hj Ahmad Laksamana Othman, 38-39, Jalan Sultan, Bandar Seri Begawan BS8811, Brunei Darussalam	Isidora Goyenechea 3000, Piso 15, Las Condes, Santiago, Chile
Commercial Marketers and Distributors Sdn. Bhd. (100%) (50%) ⁴	BAT Chile S.A.
Bulgaria	British American Tobacco Chile Operaciones S.A. (99.51%)
115 M, Tsarigradsko Shose Blvd., Building D, Floor 5, Sofia, Mladost Municipality, 1784, Bulgaria	Inversiones Casablanca S.A.
British American Tobacco Trading EOOD	China (People's Republic of)
Burkina Faso	607, Floor 6, China Resources Tower, No. 2666 South Keyuan Road, Zhuhai Community, Yuehai Street, Nanshan District, Shenzhen, People's Republic of China
Ouagadougou, Avenue Yennega, BP: 882, Ouagadougou, Burkina Faso	Nicoventures Business Consulting (Shenzhen) Co., Ltd
Tobacco Marketing Consultant Burkina Faso SARL	Room 436, No. 1000, Zenchen Road, Baoshan District, Shanghai, People's Republic of China
Burundi	British American (Shanghai) Enterprise Development Co., Ltd
Avenue de L'Uprina a Bujumbura, BP 345, Burundi	British American Nico Business Consulting (Shanghai) Co., Ltd
Tabarundi SARL	Unit 1001 in 901, 9/F, Building 3, No.8 Guanghuadongli, Chaoyang District, Beijing, People's Republic of China
Cambodia	British American Consulting (Beijing) Ltd
1121 National Road 2, Prek Tanou Village, Sangkat Chak Ang Re Leu, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia	Colombia
British American Tobacco (Cambodia) Limited (71%)	Av. Cra. 72 # 80-94 Piso 10. Bogotá, Colombia
British American Tobacco (Cambodge) International Limited	British American Tobacco Colombia S.A.S.
Cameroon	Vype Colombia S.A.S.
Rue Njo Njo, Bonapriso – B.P. 259, Douala, Cameroon	Congo (Democratic Republic of)
British American Tobacco Cameroun S.A. (99.76%)	1er étage, Immeuble du Centenaire, Gombe, Kinshasa, Democratic Republic of Congo
Canada	BAT Distribution SARL
30 Pedigree Court, Brampton, Ontario, L6T 5T8, Canada	British American Tobacco Congo SARL
Imperial Tobacco Canada Limited	1st floor immeuble L'horizon sis avenue Colonel Lukusa n.50, Gombe, Kinshasa, Democratic Republic of Congo
Imperial Tobacco Company Limited	British American Tobacco Services Congo SARL (99%)
	British American Tobacco Import SARL (99%)
	Costa Rica
	325 Metros este del Puente de la Firestone, Llorente, Flores, Heredia, Costa Rica
	BASS Americas S.A.
	BATCCA Park Inversiones Inmobiliarias, S.A.
	BATCCA Servicios S.A.

Financial Statements

Group Companies and Undertakings
Continued

Croatia	France
Draškovićeva 27, 10000 Zagreb, Croatia	111 Avenue Victor Hugo, Paris, 75016, France
Inovine d.d. (93.42%)	Carreras France SAS
Ivana Lučića 2/a, 10000 Zagreb, Croatia	Cœur Défense Tour A 100-110 Esplanade de Gaulle 92932 Paris La Défense Cedex, France
BAT HRVATSKA d.o.o. u likvidaciji	British American Tobacco France SAS
Obala V. Nazora 1, 52210 Rovinj, Croatia	Germany
TDR d.o.o.	Alsterufer 4, 20354 Hamburg, Germany
Osječka 2, 33000 Virovitica, Croatia	BATIG Gesellschaft für Beteiligungen m.b.H.
Hrvatski Duhani d.d. Tobacco Leaf Processing (89.55%)	British American Tobacco (Germany) GmbH
Cuba	British American Tobacco (Industrie) GmbH
Parcela nº 2 a noroeste do terminal de contêineres de Mariel, a 2,2 km do vértice nº 4, Município de Mariel, Província de Artemisa, na República de Cuba.	Schutterwalder Straße. 23, 01458 Ottendorf-Okrilla, Germany
Brascuba Cigarrillos S.A. (50%)	Quantus Beteiligungs – und Beratungsgesellschaft mbH
Cyprus	Ghana
Photiades Business Centre, 5th Floor, 8 Stasinou Avenue, Nicosia, CY-1060, Cyprus	F190/5 Josiah Tongogari Street, Opposite Tante Marie Restaurant, Labone-Accra, Ghana
B.A.T (Cyprus) Limited	British American Tobacco Ghana Limited (97.09%)
Rothmans (Middle East) Limited	Greece
Czech Republic	27, Ag. Thoma Street, Maroussi, 151 24, Greece
Karolinská 654/2, Prague 8 – Karlín, 186 00, Czech Republic	British American Tobacco Hellas S.A.
British American Tobacco (Czech Republic), s.r.o.	Guernsey
Denmark	St. Martin's House, Le Bordage, St. Peter's Port, GY1 4AU, Guernsey
Vester Farimagsgade 19, 1606 Copenhagen, Denmark	Belaire Insurance Company Limited
British American Tobacco Denmark A/S (House of Prince A/S)	Guyana
Precis (1789) Denmark A/S	Lot 122 Parade Street, Kingston, Georgetown, Guyana
Egypt	Demerara Tobacco Company Limited (70.25%)
Administrative unit no.1, 5th Floor, Building S2B, Sector A, Downtown Mall Katameya, 5th settlement, New Cairo, Egypt	Honduras
BETCO for General Services and Marketing LLC	Boulevard del Sur, Zona El Cacao, San Pedro Sula, Depart. de Cortés, Honduras
BETCO for Trade and Distribution LLC	Tabacalera Hondureña S.A. (83.64%)
British American Tobacco Egypt LLC	Hong Kong
British American Tobacco North Africa LLC	11/F, One Pacific Place, 88 Queensway, Hong Kong
Eritrea	British American Tobacco China Investments Limited
P.O. Box 749, 62 Fel Ket Street, Asmara, Eritrea	LEHMAN, LEE & XU CORPORATE SERVICES, Suite 3313, Tower One, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
British American Tobacco (Eritrea) Share Company#	Reynolds Asia-Pacific Limited
Estonia	Level 30, Three Pacific Place, 1 Queen's Road East, Wanchai, Hong Kong
Tornimäe 7-10, 10145 Tallinn, Estonia	British American Tobacco Asia-Pacific Region Limited
British American Tobacco Estonia AS	British-American Tobacco Company (Hong Kong) Limited
Fiji	Level 24, Suites 2407 - 09, 3 Pacific Place, 1 Queen's Road East, Wanchai, Hong Kong
Lady Maria Road, Nabua, Suva, Fiji	BAT Global Travel Retail Limited
British American Tobacco (Fiji) Marketing Pte Limited	Units 2501 and 2506 to 2510, 25/F Island Place Tower, Island Place 510, King's Road, Hong Kong
Central Manufacturing Company Pte Limited	American Cigarette Company Limited
Rothmans of Pall Mall (Fiji) Pte Limited	Hungary
Finland	H-1124, Budapest, Csörsz utca 49-51. 3. em., Hungary
Itamerentori 2, 00180, Helsinki, Finland	BAT Pécsi Dohánygyár Korlátolt Felelősségű Társaság
British American Tobacco Finland Oy	

Indonesia
Capital Place Office Tower, 6th Floor, Jl. Gatot Subroto Kav. 18, Jakarta 12710 Indonesia
PT Bentoel Internasional Investama, Tbk (92.48%)
Jl. Raya Karanglo, 1 Desa Banjararum, Kecamatan Singosari, Jawa Timur 65153 Indonesia
PT Bentoel Prima ⁴ (100%) (99.99%) [^]
Jl. Susanto No. 2B, Ciptomulyo, Sukun, Malang, Jawa Timur 65148 Indonesia
PT Bentoel Distribusi Utama (100%) (99.8%) [^]
Iran, Islamic Republic of
Unit 5001, No.0, Sahand 1 St., Sabalan 1 St., Phase 3, Eshtehard Industrial Estate, Palang Abad, Alborz Province, Islamic Republic of Iran
B.A.T. Pars Company (Private Joint Stock) (99%)
No. 88, Baran Bld., Kuyeh Sayeh, Across Mellat Park, Vali'asr Ave., Tehran, Islamic Republic of Iran
TDR Parsian Company (PJS) (In Liquidation)
Iraq
Enkawa, Erbil, Kurdistan Region of Iraq
B.A.T. Iraqia Company for Tobacco Trading Limited
Ireland
Suite D, 2nd Floor, The Apex Building, Blackthorn Road, Sandyford Industrial Estate, Dublin 18, Republic of Ireland
Carroll Group Distributors Limited
P.J. Carroll & Company Limited ⁴
Rothmans of Pall Mall (Ireland) Limited ⁵
Isle of Man
c/o Boston MFO, 2nd Floor, St Mary's Court, 20 Hill Street, Douglas, IM1 1EU, Isle of Man
Abbey Investment Company Limited
The Raleigh Investment Company Limited
Tobacco Manufacturers (India) Limited
Italy
Via Amsterdam 147, 00144 Rome, Italy
British American Tobacco Italia S.p.A.
Ivory Coast
Rue des Jardins - Immeuble Sayegh-Mezzanine, Abidjan, Cocody 2 plateaux, Côte d'Ivoire
British American Tobacco RCI SARL
Marcory, Immeuble Plein Ciel Boulevard VGE – 6 BP 1377, Ivory Coast
Tobacco Marketing Consultant CDI SARL (In Liquidation)
Jamaica
13A Ripon Road, Kingston 5, Jamaica
Carreras Limited (50.40%) ⁸
Sans Souci Development Limited (100%) (50.40%) ^{^ 8}
Sans Souci Limited (100%) (50.40%) ^{^ 8}
Japan
Midtown Tower 20F, 9-7-1 Akasaka, Minato-ku, Tokyo, Japan
British American Tobacco Japan, Ltd.
Jersey
22 Grenville Street, St Helier, JE4 8PX, Jersey
Pathway 5 (Jersey) Limited

Jordan
Airport Road, Al Qastal Industrial Area, Air Cargo Road, Amman, Jordan
British American Tobacco – Jordan Private Shareholding Company Limited ¹¹
Kazakhstan
240G, Nursultan Nazarbayev avenue, A26F8D4 Almaty, Republic of Kazakhstan
British American Tobacco Kazakhstan Trading LLP
Kenya
8 Likoni Road, Industrial Area, P.O. Box 30000-00100, Nairobi, Kenya
BAT Kenya Tobacco Company Limited (100%) (60%) [^]
British American Tobacco Area Limited
British American Tobacco Kenya plc (60%)
East African Tobacco Company (Kenya) Limited (100%) (60%) [^]
Korea, Republic of
141, Gongdan1-ro, Sanam-Myun, Sacheon City, Kyungsangnamdo, Korea (the Republic of)
British American Tobacco Korea Manufacturing Limited
42FI Gangnam Finance Center, 152 Teheran-ro, Gangnam-gu, Seoul, Korea (the Republic of)
British American Tobacco Korea Limited
Kosovo, Republic of
Llaplaselle p.n., 10500 Gracanice, Republic of Kosovo
British American Tobacco Kosovo SH.P.K.
Latvia
Mukusalas iela 101, Riga LV-1004, Latvia
British American Tobacco Latvia SIA
Lithuania
J. Galvydzio g. 11-7, LT-08236 Vilnius Lithuania
UAB British American Tobacco Lietuva
Luxembourg
1, Rue Jean Piret, 2350 Luxembourg, Grand Duchy of Luxembourg
British American Tobacco Brands (Switzerland) Limited
Malawi
Northgate Arcade Complex, Masauko Chipembere Highway, Blantyre, Malawi
British American Tobacco (Malawi) Limited
Malaysia
12th Floor, Menara Symphony, No. 5, Jalan Prof Khoo Kay Kim, Seksyen 13, 46200, Petaling Jaya, Selangor Darul Ehsan, Malaysia
British American Tobacco GSD (Kuala Lumpur) Sdn Bhd
Level 11, Sunway Geo Tower, Jalan Lagoon Selatan, Sunway South Quay, Bandar Sunway, 47500 Subang Jaya, Selangor Darul Ehsan, Malaysia
BAT Aspac Service Centre Sdn Bhd
Level 19, Guoco Tower, Damansara City, No. 6 Jalan Damanela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia
British American Tobacco Malaysia Foundation ⁷
British American Tobacco (Malaysia) Berhad (50%)
Commercial Marketers and Distributors Sdn. Bhd. (100%) (50%) [^]
Rothmans Brands Sdn. Bhd. (100%) (50%) [^]
Tobacco Importers and Manufacturers Sdn. Bhd. (100%) (50%) [^]



Financial Statements

Group Companies and Undertakings Continued

Mali
DJELIBOUGOU-Immeuble BASSARO- BP 2065, Bamako -Mali
British American Tobacco (Mali) Sarl
Malta
PM Building, Level 2, Mriehel Industrial Zone, Bone Street, Mriehel, BKR3000, Malta
British American Tobacco (Malta) Limited
Central Cigarette Company Limited
Rothmans of Pall Mall (Malta) Limited
Mexico
Francisco I Madero 2750 Poniente, Colonia Centro, Monterrey, Nuevo León, C.P. 64000, Mexico
British American Tobacco Mexico Comercial, S.A. de C.V.
British American Tobacco Mexico, S.A. de C.V. ⁴
British American Tobacco Servicios S.A. de C.V.
Cigarrera La Moderna, S.A. de C.V.
Predio Los Sauces Sin número, Colonia Los Sauces, C.P. 63197, Tepic, Nayarit, Mexico
Procesadora de Tabacos de Mexico, S.A. de C.V. (93%)
Moldova, Republic of
65, Stephan cel Mare Str., off. 414-417, Chisinau, MD2001, Republic of Moldova
British American Tobacco – Moldova S.R.L.
Mozambique
2289 Avenida de Angola, Maputo, Mozambique
British American Tobacco Mozambique Limitada (95%)
Sociedade Agricola de Tabacos Limitada (95%)
Myanmar
Min Aye Yar Street, Plot No. (55, 56), Survey Ward No. (14) Shwe Than Lwin Industrial Zone, Hlaing Tharyar Township Yangon Region, Myanmar
British American Tobacco Myanmar Limited (95%) ⁸
British American Tobacco Myanmar Services Limited ⁸
Namibia
24 Orban Street, Klein Windhoek, Namibia
Twisp (Pty) Limited
Shop 48, Second Floor Old Power Station Complex, Armstrong Street, Windhoek, Namibia
British American Tobacco Namibia (Pty) Limited

Netherlands
Handelsweg 53 A, 1181 ZA, Amstelveen, Netherlands
Aruba Properties B.V.
B.A.T Finance B.V.
B.A.T. Netherlands Finance B.V.
British American Tobacco European Operations Centre B.V.
British American Tobacco Exports B.V.
British American Tobacco Holdings (Australia) B.V.
British American Tobacco Holdings (Malaysia) B.V.
British American Tobacco Holdings (South Africa) B.V.
British American Tobacco Holdings (The Netherlands) B.V.
British American Tobacco Holdings (Venezuela) B.V.
British American Tobacco Holdings (Vietnam) B.V.
British American Tobacco International (Holdings) B.V.
British American Tobacco International Investments B.V.
British American Tobacco Manufacturing B.V.
Molensteegh Invest B.V.
Precis (1789) B.V.
Precis (1790) B.V.
Rothmans Far East B.V.
Rothmans International Holdings B.V.
Rothmans International Holdings II B.V.
Rothmans Tobacco Investments B.V.
Rothmans UK Holdings B.V.
New Zealand
2 Watt Street, Parnell, Auckland, 1052, New Zealand
British American Tobacco (New Zealand) Limited
British American Tobacco Holdings (New Zealand) Limited
Mint Advisory Limited, Suite 6, 8 Turua Street, St Heliers, Auckland, 1071, New Zealand
New Zealand (UK Finance) Limited [#]
Niger
Rue du Parc, Quartier Terminus, Niamey, Niger
British American Tobacco Niger (In Liquidation)
Nigeria
1, Tobacco Road, Oluyole Local Government Area, Ibadan, Oyo State, Nigeria
British American Tobacco (Nigeria) Limited
2 Olumegbon Road, Ikoyi, Lagos, Nigeria
British American Tobacco Marketing Nigeria Limited



North Macedonia, Republic of

Blvd. 8-mi SEPTEMVRI No. 18, 1000 Skopje, Republic of Macedonia
TDR SKOPJE DOOEL Skopje

Norway

Dronning Eufemias Gate 42. 0191 Oslo, Norway
British American Tobacco Norway AS

Pakistan

Serena Business Complex. Khayaban-e-Suhrwardy, Islamabad, Pakistan
British American Tobacco SAA Services (Private) Ltd
Pakistan Tobacco Company Limited (94.65%)
Bun Khurma Chichian Road, Mirpur Azad Jammu & Kashmir, Pakistan
Phoenix (Private) Limited (100%) (94.65%)^

Panama

Torre Banco Panama, Boulevard Costa Del Este y Aveida La Rotonda, Piso 14, Oficina 1400, Costa del Este Ciudad de Panama, Panama
BAT Caribbean, S.A.
British American Tobacco Central America S.A. (87.65%)
British American Tobacco Panama S.A.
Tabacalera Istmeña S.A.

Papau New Guinea

Ashurst Png, Level 11 Mrdc Haus, Cnr Of Musgrave Street and Champion Parade, Port Moresby, National Capital District, Papau New Guinea
British American Tobacco (PNG) Limited
Papua New Guinea Tobacco Co. Ltd
Paradise Tobacco Co. Limited
Rothmans of Pall Mall (P.N.G) Limited

Paraguay

Avda. Aviadores del Chaco N° 2050 (World Trade Center, Torre 2, Piso 17), Asunción, Paraguay
British American Tobacco Productora de Cigarrillos S.A.

Peru

Pasaje Santa Rosa 256, Ate, Lima, Perú
British American Tobacco del Peru Holdings S.A. (98.55%)⁶
British American Tobacco del Peru, S.A.C.

Philippines

31 Tayuman Street, Tondo, Manila, Philippines
Alhambra Industries Inc.#

Poland

Aleja Wojska Polskiego 23c, 63-500, Ostrzeszow, Poland
CHIC sp.zo.o.
CHIC sp.zo.osp.k.
Chic Holding sp.zo.o.
Chic Investments sp.zo.o.
eSMOKING Liquids sp.zoo
eSMOKING Liquids sp.zo.o.sp.k.
Nicoventures Polska Sp. z o.o.
Krakowiakow 48, 02-255, Warszawa, Poland
British American Tobacco Polska Trading sp. zo.o.
Rubiez 46, 61-612, Poznan, Poland
eSMOKING INSITUTE sp.zoo
ul. ILZECKA 26E, 02-135, Warszawa, Poland
Nicoventures Poland sp. z o.o.

Ul. Tytoniowa 16, 16-300, Augustow, Poland

British-American Tobacco Polska S.A.

Portugal

Edificio Amoreiras Square, Rua Carlos Alberto da Mota Pinto 17, 3e A, 1070-313, Amoreiras, Lisboa, Portugal
COTAPO Empreendimentos Comerciais e Industriais S.A.
Sociedade Unificada de Tabacos Limitada (76.4%)

Qatar

P O Box 6689, 41 Floor, Tornado Tower, West Bay, Doha, Qatar
British American Tobacco Q LLC

Réunion

5, Immeuble Cap, Avenue Théodore Drouhet, ZAC Horizon 2000, Le Port, 97420, Ile de la Réunion
B.A.T. La Reunion SAS

Romania

319 Splaiul Independentei, Sema Parc 'City Building', 1st Floor, 6th Sector, Bucharest, Romania
British American Shared Services (Europe) S.R.L.
319 Splaiul Independentei, Sema Parc 'City Building', 6th Floor, 6th Sector, Bucharest, Romania
BRITISH American GBS Recruitment S.R.L.
Municipiul Ploiesti, Str. Laboratorului, NR 17-19, Judetul Prahova, Romania
British-American Tobacco Romania Investment S.R.L.
Bucharest Business Park, Building A (3rd floor) and Building B2 (floors 2-4), 1A Bucuresti – Ploiesti (DN1) Road, Sector 1, Bucharest 013681, Romania
British American Tobacco (Romania) Trading SRL

Russia

38, 3rd Konnaya lakhta, Saint Petersburg, 197229 Russia
JSC 'British American Tobacco-SPb'#
Building 2, 17 Krylatskaya Street, Moscow, 121614 Russia
JSC 'International Tobacco Marketing Services'

Rwanda

SORAS Building, Boulevard de la Revolution P.O Box 650 Kigali, Rwanda
British American Tobacco Rwanda Limited

Saint Lucia

c/o ADCO Incorporated, 10 Manoel Street, Castries, Saint Lucia
Carisma Marketing Sercices Ltd
Pointe Seraphine, Castries, Saint Lucia
Rothmans Holdings (Caricom) Limited

Samoa

Vaitete Estate, Vaitete, Samoa
British American Tobacco Company (Samoa) Limited

Saudi Arabia, Kingdom Of

7051 Al Amir Sultan-Al Salamah District, Unit 1302. Jeddah 23525 -2661 Saudi Arabia
BAT Saudia for Trading
Eastern Tobacco Company For Trading

Senegal

Almadies, Route Hôtel Méridien en Face Club Med, Dakar, Senegal BP 3174
Tobacco Marketing Consultant TMC S.A.R.L. (In Liquidation)

Financial Statements

Group Companies and Undertakings Continued

Serbia	Spain
Bulevar Milutina Milankovica 1ž, Belgrade, 11070, Serbia	Torre Espacio, Paseo de la Castellana, 259D, 28046 Madrid, Spain
British American Tobacco South – East Europe d.o.o.	British American Tobacco España, S.A.
Kralja Stefana Provenčanog 209, Vranje, 17500, Serbia	Sri Lanka
British American Tobacco Vranje a.d.	178 Srimath Ramanathan Mawatha, Colombo, 15, Sri Lanka
Singapore	Ceylon Tobacco Company Plc (84.13%)
15 Senoko Loop, Singapore, 758168	Sudan
British-American Tobacco (Singapore) Private Limited	Byblos Tower, Al-Muk Nemer Street, Postal Code 11111, P.O Box 1381, Khartoum, Sudan
British-American Tobacco Marketing (Singapore) Private Limited	Blue Nile Cigarette Company Limited
18 Ah Hood Road #12-51, Hiap Hoe Bldg at Zhongshan Park, Singapore, 329983	Swaziland
British American Tobacco Sales & Marketing Singapore Pte. Ltd.	213 King Mswati III Avenue West, Matsapha Industrial Site, Mutsapha, eSwatini
Shenton Way, #33-00 OUE Downtown, Singapore 068809	British American Tobacco Swaziland (Pty) Limited
RHL Investments Pte Limited# (In Liquidation)	Sweden
Slovenia	Södra Järnvägsgatan 13, 4 fl. SE-252 24 Helsingborg, Sweden
Barvničarjeva ulica 13, 1000 Ljubljana, Slovenia	Niconovum AB
British American Tobacco d.o.o.	Stationsvägen 11, 523 74 Hokerum, Sweden
Solomon Islands	Winnington AB
Kukum Highway, Ranadi, Honiara, Honiara, Solomon Islands	Stenåldersgatan 23, 213 76 Malmö, Sweden
Solomon Islands Tobacco Company Limited	Fiedler & Lundgren AB
South Africa	Västra Trädgårdsgatan 15, 11153 Stockholm, Sweden
Waterway House South, 3 Dock Road, V&A Waterfront, Cape Town 8000, South Africa	British American Tobacco Sweden AB
Agrega EEMEA (Pty) Limited	Switzerland
Amalgamated Tobacco Corporation (South Africa) (Pty) Limited	Route de France 17, 2926 Boncourt, Geneva, Switzerland
American Cigarette Company (Overseas) (Pty) Ltd	American-Cigarette Company (Overseas) Limited
Benson & Hedges (Pty) Limited	BAT Switzerland Vending SA
British American Shared Services Africa Middle East (Pty) Limited	British American Tobacco Switzerland SA
British American Tobacco GSD (South Africa) (Pty) Limited	Nicoventures Communications (Switzerland) SA
British American Tobacco Holdings South Africa (Pty) Limited#	Rothmans of Pall Mall Limited
British American Tobacco Properties South Africa (Pty) Ltd.	Route de la Glâne 107, c/o NBA Fiduciaire S.A. 1752 Villars-sur-Glâne, Switzerland
British American Tobacco Services South Africa (Pty) Limited	Intertab S.A. (50%)
British American Tobacco South Africa (Pty) Limited	c/o Seepark AG, Gartenstrasse 4, 6300 Zug, Switzerland
British American Tobacco East and Southern Africa (Pty) Limited	British American Tobacco International Limited (In Liquidation)
Brown & Williamson Tobacco Corporation (Pty) Limited	Tanzania
Business Venture Investments No 216 (Pty) Limited	Acacia Estate Building, Kinondoni Road, P.O Box 288, Dar es Salaam, Tanzania
Carlton Cigarette Company (Pty) Limited	BAT Distribution Tanzania Limited
John Chapman (Pty) Limited	British American Tobacco (Tanzania) Limited
John Player & Sons (Pty) Limited	International Cigarette Distributors Limited (99%)
Kentucky Tobacco Corporation (Pty) Limited	Zanzibar Distribution Company Limited (99%)
Martins of London (Pty) Limited	Trinidad and Tobago
Rembrandt Tobacco Corporation (Overseas) (Pty) Ltd	Corner Eastern Main Road and Mt. D'or Road, Champs Fleurs, Trinidad and Tobago
Riggio Tobacco Corporation of New York (Pty) Ltd	The West Indian Tobacco Company Limited (50.13%)
Rothmans of Pall Mall London (Pty) Limited	Turkey
St. Regis Tobacco Corporation (Pty) Ltd	Orjin Maslak İş Merkezi, Eski Büyükdere Caddesi, Kat 9-10, Maslak, Sarıyer, İstanbul
Thomas Bear's Son & Co (Pty) Limited	British American Tobacco Tütün Mamulleri Sanayi ve Ticaret Anonim Şirketi
Tobacco Research and Development Institute (Pty) Limited	
Twisp (Pty) Limited	
W.D. & H.O. Wills (Pty) Limited	
Westminster Tobacco Company (Cape Town & London) (Pty) Limited	
Winfield Tobacco Corporation (Pty) Limited	
Winston Tobacco Company (Pty) Limited	



Uganda
10th Floor, Lotis Towers, Plot 16 Mackinnon Road, Nakasero, Kampala, Uganda
British American Tobacco Uganda Limited (90%)
Ukraine
13-15 Bolsunovska Str, Kyiv, 01014 Ukraine
LLC 'British American Tobacco Sales and Marketing Ukraine'
21 Nezalezhnosti Str, Pryluky, Chernihiv Region, 17502 Ukraine
PJSC 'A/T B.A.T. – Prilucky Tobacco Company'
United Arab Emirates
Jumeriah Business Centre 3, 37th Floor, Jumeirah Lake Towers, Dubai, P.O. Box 337222, United Arab Emirates
British American Tobacco GCC DMCC
British American Tobacco ME DMCC
Unit # 2680, DMCC Business Center- Level # 1, Jewellery & Gemplex 3 Dubai United Arab Emirates
British American Tobacco International DMCC
United Kingdom
212-218 Upper Newtownards Road, Belfast, BT4 3ET, Northern Ireland
Murray, Sons & Company, Limited
7 More London, Riverside, London, SE1 2RT, United Kingdom
Rysekks P.L.C. (50%) (In Liquidation)
Building 7, Chiswick Business Park, 566 Chiswick High Road, London, England, W4 5YG, United Kingdom
British American Tobacco UK Limited
Ten Motives Limited
10 Motives Limited
Globe House, 1 Water Street, London, WC2R 3LA, United Kingdom
Advanced Technologies (Cambridge) Limited
Allen & Ginter (UK) Limited
B.A.T (U.K. and Export) Limited
B.A.T Cambodia (Investments) Limited
B.A.T Far East Holding Limited
B.A.T Far East Leaf Limited
B.A.T Services Limited
B.A.T Uzbekistan (Investments) Limited
B.A.T Vietnam Limited
B.A.T. (Westminster House) Limited
B.A.T. China Limited
BAT Finance COP Limited
BATIF Dollar Limited
BATUS Limited
Big Ben Tobacco Company Limited
British American Shared Services (GSD) Limited
British American Shared Services Limited
British American Tobacco (AIT) Limited

British American Tobacco (GLP) Limited
British American Tobacco (Investments) Limited
British American Tobacco (Philippines) Limited
British American Tobacco (Serbia) Limited
British American Tobacco (South America) Limited
British American Tobacco China Holdings Limited
British American Tobacco Exports Limited
British American Tobacco Georgia Limited
British American Tobacco Global Travel Retail Limited
British American Tobacco International Holdings (UK) Limited
British American Tobacco Investments (Central & Eastern Europe) Limited
British American Tobacco Italy Investments Limited
British American Tobacco Italy Limited
British American Tobacco Korea (Investments) Limited
British American Tobacco Malaysia (Investments) Limited
British American Tobacco Peru Holdings Limited
British American Tobacco UK Pension Fund Trustee Limited ⁸
British-American Tobacco (Mauritius) p.l.c.
Carreras Rothmans Limited [#]
Chelwood Trading & Investment Company Limited
East African Tobacco Company (U.K.) Limited
Lord Extra Limited
Myddleton Investment Company Limited
Nicovations Limited
Nicoventures Holdings Limited
Nicoventures Retail (UK) Limited
Nicoventures Trading Limited
Powhattan Limited
Precis (2396) Limited
Ridirectors Limited
Rothmans Exports Limited
Rothmans International Limited
Rothmans International Tobacco (UK) Limited
Rothmans International Services Limited
Rothmans of Pall Mall (Overseas) Limited
Rothmans Trading Limited
Ryservs (1995) Limited
Ryservs (No.3) Limited
Tobacco Exporters International Limited
Tobacco Marketing Consultants Limited
Venezuela Property Company Limited
Westanley Trading & Investment Company Limited
Westminster Tobacco Company Limited
Globe House, 2 Milford Lane, London, WC2R 3LN, United Kingdom
World Investment Company Limited



Financial Statements

Group Companies and Undertakings Continued

Globe House, 4 Temple Place, London, WC2R 2PG, United Kingdom

Amalgamated Tobacco Company Limited

American Cigarette Company (Overseas) Limited

Ardath Tobacco Company Limited

B.A.T Additional Retirement Benefit Scheme Trustee Limited

B.A.T Industries p.l.c.

B.A.T. International Finance p.l.c.*

B.A.T. Operating Finance Limited

BATLaw Limited

BATMark Limited*

Benson & Hedges (Overseas) Limited

British American Global Shared Services Limited

British American Tobacco (1998) Limited*

British American Tobacco (2009) Limited

British American Tobacco (2009 PCA) Limited

British American Tobacco (2012) Limited

British American Tobacco (Brands) Limited

British American Tobacco (Corby) Limited

British American Tobacco (NGP) Limited

British American Tobacco Healthcare Trustee Limited

British American Tobacco Taiwan Logistics Limited

British-American Tobacco (Holdings) Limited

Brown & Williamson Tobacco Corporation (Export) Limited

BTomorrow Ventures Limited

Carreras Limited

Courtleigh of London Limited

Dunhill Tobacco of London Limited

John Sinclair Limited

Louisville Securities Limited

Moorgate Tobacco Co. Limited

Peter Jackson (Overseas) Limited

Precis (1789) Limited

Precis (1814) Limited

Rothmans International Enterprises Limited

Rothmans of Pall Mall Limited

Senior Service (Overseas) Limited

South Western Nominees Limited

The London Tobacco Company Limited

Tobacco Insurance Company Limited

Weston (2009) Limited

Weston Investment Company Limited

United States

CSC-Lawyers Incorporating Service, 2710 Gateway Oaks Drive, Suite 150N, Sacramento CA 95833-3505, United States

Genstar Pacific Corporation

251 Little Falls Drive, Wilmington, DE 19808, United States

B.A.T Capital Corporation

BATUS Holdings Inc.

BATUS Japan, INC.

BATUS Retail Services, Inc.

British American Tobacco (Brands), Inc.

Brown & Williamson Holdings, Inc.

BTI 2014 LLC

Imasco Holdings Group, Inc.

Imasco Holdings, Inc.

ITL (USA) Limited

Louisville Corporate Services, Inc.

Nicoventures U.S. Limited

Farmers Bank Building, Suite 1402, 301 N. Market Street, Wilmington, DE 19801, United States

Reynolds Finance Company

3700 Airpark Drive, Owensboro, KY 42301, United States

Kentucky BioProcessing, Inc.

401 N. Main Street, Winston-Salem, NC 27101, United States

Conwood Holdings, Inc.

EXP Homes, LLC

Lorillard Licensing Company LLC

Lorillard, LLC

Modoral Brands Inc.

Northern Brands International, Inc.

R.J. Reynolds Global Products, Inc.

R.J. Reynolds Tobacco Company

R.J. Reynolds Tobacco International, Inc.

R.J. Reynolds Vapor Company

R.J. Reynolds Tobacco Co.

R.J. Reynolds Tobacco Holdings, Inc.

RAI Innovations Company

RAI International, Inc.

RAI Services Company

RAI Strategic Holdings, Inc.

RAI Trade Marketing Services Company

Reynolds American Inc.

Reynolds Brands Inc.

Reynolds Technologies, Inc.

RJR Realty Relocation Services, Inc.

RJR Vapor Co., LLC

Rosswil LLC

S.F. Imports, Inc.

Spot You More, Inc.

Vuse Stores LLC



3220 Knotts Grove Road, Oxford, NC 27565, United States
Santa Fe Natural Tobacco Company, Inc.
5106, Tradeport Dr., Memphis, TN 38141, United States
American Snuff Company, LLC
Uruguay
Juncal 1392, Montevideo, Uruguay
Kellian S.A.
Uzbekistan
77 Minor Passage, Tashkent, 100084, Uzbekistan
JSC JV "UZBAT A.O." (97.38%)
Venezuela
Registro Mecantil Primero de la Circunscripción, Judicial des Distrito, Capital y Estado, Miranda, Venezuela
Agrega de Venezuela, Agreven, C.A. (50%)
Avenida Francisco de Miranda, Edificio Bigott, Los Ruices, Caracas – Estado Miranda, 1010, Venezuela
Agrobigott, C.A.
Compania Anonima Cigarrera Bigott Sucesores
Distribuidora Bigott, C.A.
Avenida Francisco de Miranda, Torre Regelfall, Municipio Chacao, Estado, Miranda, Caracas, Venezuela
Proyectos de Inversion BAT 1902 C.A.
Vietnam
19/F Mplaza Saigon, 39 Le Duan Street, Ben Nghe Ward, District 1, Ho Chi Minh City, Vietnam
East Asia Area Services Company Limited
Area 8, Long Binh Ward, Bien Hoa City, Dong Nai Province, Vietnam
British American Tobacco – Vinataba (JV) (70%)
Lot 45C/I, Road #7, Vinh Loc Industrial Park, Binh Chanh District, Ho Chi Minh City, Vietnam
VINA-BAT Joint Venture Company Limited (49%)
Zambia
Plot No. PH1 IND & 53 & 54, LS-MFEZ, Chifwema Road, Lusaka, Zambia
British American Tobacco (Zambia) plc (78.08%)
Zimbabwe
Manchester Road 1, Southerton, Harare, Zimbabwe
American-Cigarette Company (Overseas) (Private) Ltd
British American Tobacco Zimbabwe (Holdings) Limited (63.74%)
Rothmans Limited

Associated Undertakings and Joint Ventures

Croatia
Slavonska avenija 11a, 10000 Zagreb, Croatia
Tisak d.d. (41.86%)
France
88 Avenue des Ternes, 75017, Paris, France
Alcome SAS (24%)
Hungary
H-6800 Hódmezővásárhely, Erzsébeti út 5/b, Hungary
Országos Dohányboltellátó Korlátolt Felelősségű Társaság (49%)
India
Virginia House, 37, J.L. Nehru Road, Kolkata, 700071, India
ITC Limited (29.42%)
Azamabad, Andhra Pradesh, Hyderabad, 500 020, India
VST Industries Limited (32.16%) ⁸
United Kingdom
65a Hopton Street, London, SE1 9LR, United Kingdom
AYR LTD (13.14%) ⁹
Uzbekistan
Gulobod Village, Samarkand Region, 140100, Uzbekistan
FE "Samfruit" JSC (38.63%)
Yemen
P.O. Box 14, Sanna, Yemen
Kamaram Industry and Investment Company (31%)
P.O. Box 5302, Hoban, Taiz, Yemen
United Industries Company Limited (32%)

Joint Operations

Hong Kong
29/F, Oxford House, 979 King's Road, Taikoo Place, Quarry Bay, Hong Kong
CTBAT International Co. Limited (50%)

Notes:

1. Ownership held in the class of US Dollar 100 (100%) (76.30%)* and US Dollar 49,900 (100%).
2. Ownership held in the class of Series F and 2nd Preferred shares.
3. Ownership held in the class of A shares (50%) and class of B shares (100%).
4. Ownership held in class of A shares and B shares.
5. Ownership held solely in class of preference shares.
6. Ownership held in class of Investment stock (98.98%) and Ordinary shares (98.35%).
7. Company limited by guarantee.
8. 31 March year-end.
9. 31 May year-end.
10. 30 June year-end.
11. 30 November year-end.

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Other Information

Information on the Group

Overview

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

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

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

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

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

History and development of BAT

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

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

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

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

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

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

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

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

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

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

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

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

Seasonality

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

Patents and trademarks

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

Board oversight of M&A transactions

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

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



Selected Financial Information

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

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

Notes:

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

Other Information

Non-Financial KPIs

Volume

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

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

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

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

Volume Share

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

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

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

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

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

Value Share

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

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

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

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



Price Mix

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

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

Non-Combustible Consumers

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

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

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



Other Information

Non-GAAP Measures

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

Adjusted Revenue

Definition – revenue before the impact of adjusting items.

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

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

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

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



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

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

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

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

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

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

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

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



Other Information

Non-GAAP Measures

Continued

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

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

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

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

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

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

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

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

Adjusted Profit From Operations and Adjusted Operating Margin

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

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

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

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

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

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

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



Other Information

Non-GAAP Measures

Continued

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

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

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

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

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

Underlying Tax Rate

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

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

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

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

Adjusted Diluted Earnings Per Share

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

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

Operating Cash Flow Conversion Ratio

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



Other Information**Non-GAAP Measures**
Continued**Net Debt**

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

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



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

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



Other Information

Non-GAAP Measures

Continued

Results on a Constant Translational Currency Basis

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

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

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



Employees

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

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

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

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

Note:

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



Other Information

Additional Disclosures on Liquidity and Capital Resources

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

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

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

Capital Expenditure

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

Hedging Instruments

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

Capital Resources

Policy

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

Borrowings

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

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

Notes:

1. The financial data above has been extracted from the Group's consolidated financial statements.

2. The issuers of these debt securities are B.A.T. International Finance p.l.c., B.A.T. Capital Corporation, Reynolds American Inc., or R.J. Reynolds Tobacco Company, as applicable. British American Tobacco p.l.c. is the ultimate guarantor in each case.

Off-Balance Sheet Arrangements and Contractual Obligations

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

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

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

Notes:

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

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

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



Other Information

Summary of Group Risk Factors

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

Business execution and supply chain risks

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

Legal, regulatory and compliance risks

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



Economic and financial risks

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

Product pipeline, commercialisation and Intellectual Property risks

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



Other Information

Group Risk Factors

Business Execution and Supply Chain Risks

Risk: Competition from illicit trade.

Description

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

Impact

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

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

Description

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

Impact

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

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

Description

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

Impact

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

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

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

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



Business Execution and Supply Chain Risks continued

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

Description

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

Impact

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

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

Risk: Failure of a financial counterparty.

Description

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

Impact

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

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

Description

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

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

Impact

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

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

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



Other Information

Group Risk Factors

Continued

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

Description

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

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

Impact

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

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

Risk: Disruption to the supply chain and distribution channels.

Description

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

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

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

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

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

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

Impact

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



Business Execution and Supply Chain Risks continued

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

Description

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

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

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

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

Impact

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

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

Risk: Exposure to product contamination.

Description

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

Impact

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

Risk: Inability to obtain adequate supplies of tobacco leaf.

Description

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

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

Impact

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



Other Information

Group Risk Factors

Continued

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

Description

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

Impact

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

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

Description

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

Impact

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

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

Description

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

Impact

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

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

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

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



Legal, Regulatory and Compliance Risks

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

Description

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

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

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

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

Traditional Tobacco Products

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

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

New Categories

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

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

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



Other Information

Group Risk Factors Continued

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

Impact

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

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

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

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

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

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

Description

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

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

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

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

Impact

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



Legal, Regulatory and Compliance Risks continued

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

Description

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

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

Impact

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

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

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

Description

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

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

Impact

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

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

Description

The Group is subject to a variety of laws, regulations and operational standards relating to health and safety and the environment.

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

Impact

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



Other Information

Group Risk Factors

Continued

Risk: Exposure to unfavourable tax rulings.

Description

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

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

Impact

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

Risk: Unexpected legislative changes to corporate income tax laws.

Description

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

Impact

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

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

Description

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

Impact

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

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

Description

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

Impact

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



Legal, Regulatory and Compliance Risks continued

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

Description

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

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

Impact

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

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

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

Description

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

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

Impact

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



Other Information

Group Risk Factors

Continued

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

Description

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

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

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

Impact

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

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

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

Description

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

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

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

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

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

Impact

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

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



Legal, Regulatory and Compliance Risks continued

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

Description

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

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

In particular:

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

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

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

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

Impact

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

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

Reputational damage could also potentially cause significant harm to the Group.

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

Economic and Financial Risks

Risk: Foreign exchange rate exposures.

Description

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

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

Impact

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

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



Other Information

Group Risk Factors

Continued

Economic and Financial Risks continued

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

Description

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

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

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

Impact

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

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

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

Description

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

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

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

Impact

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

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



Economic and Financial Risks continued

Risk: Funding, liquidity and interest rate risks.

Description

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

The Group is also exposed to increases in interest rates in connection with both existing floating rate debt and future debt refinancings. The current economic environment, with historically low interest rates, increases the likelihood of higher interest rates in the future.

The phaseout of LIBOR and uncertainty regarding the appropriate benchmark replacement similarly increases uncertainty with respect to the interest rates applicable to the Group's floating rate debt.

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

Impact

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

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

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

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

Description

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

Risks from integration of businesses also include the risk that the integration may divert the Group's focus and resources from its other strategic goals.

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

Impact

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

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

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



Other Information

Group Risk Factors

Continued

Risk: Unforeseen underperformance in key global markets.

Description

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

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

Impact

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

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

Description

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

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

Impact

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

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

Description

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

Impact

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



Product Pipeline, Commercialisation and Intellectual Property Risks

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

Description

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

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

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

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

Impact

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

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

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



Other Information

Group Risk Factors

Continued

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

Description

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

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

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

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

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

Impact

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

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



Regulation of the Group's Business

Overview

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

Regulation can typically be categorised as follows:

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

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

World Health Organization Framework Convention on Tobacco Control

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

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

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

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

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

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

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



Other Information

Regulation of the Group's Business Continued

Single-Use Plastics

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

Restrictions on Smoking in Private, Public and Workplaces

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

Regulation of Ingredients, Including Flavoured Tobacco Products

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

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

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

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

Plain and Standardised Packaging

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

Product Display Bans at Point of Sale and Licensing Regimes

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

Illicit Trade

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

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

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

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



Vapour Products

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

The US

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

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

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

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

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

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

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

Comprehensive plan for tobacco and nicotine regulation

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



Other Information

Regulation of the Group's Business Continued

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

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

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

Additional regulation

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

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

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



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

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

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

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

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

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

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



Other Information

Material Contracts

The Master Settlement Agreement & State Settlement Agreements

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

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

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

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



Change of Control Provisions as at 31 December 2020

Significant agreements

Nature of agreement	Key provisions
The revolving credit facilities agreement effective 12 March 2020 entered into between the Company, B.A.T. International Finance p.l.c., B.A.T. Netherlands Finance B.V and B.A.T Capital Corporation (as borrowers and, in the case of the Company, as a guarantor) and HSBC Bank plc (as agent) and certain financial institutions (as lenders), pursuant to which the lenders agreed to make available to the borrowers £6 billion for general corporate purposes (the Facility).	<ul style="list-style-type: none"> – should a borrower (other than the Company) cease to be a direct or indirect subsidiary of the Company, such borrower shall immediately repay any outstanding advances made to it and shall cease to be a borrower under the Facility; and – where there is a change of control in respect of the Company, the lenders can require all amounts outstanding under the Facility to be repaid.
In March and April 2020, the Group arranged short-term bilateral facilities with core relationship banks for a total amount of approximately £4.8 billion. B.A.T. International Finance p.l.c. is the borrower under these facilities and the Company the guarantor. The bilateral facilities have since been reduced to a total amount of approximately £3.4 billion and remain undrawn.	<ul style="list-style-type: none"> – should the borrower cease to be a direct or indirect subsidiary of the Company, the borrower shall immediately repay any outstanding advances made to it under these facilities; and – where there is a change of control in respect of the Company, the lenders can require all amounts outstanding under these facilities to be repaid.
Term loan facilities agreement dated 16 January 2017: B.A.T. International Finance p.l.c. and B.A.T Capital Corporation (as borrowers), the Company, (as guarantor) and HSBC Bank plc (as agent) and certain financial institutions (as lenders) pursuant to which the lenders agreed to make available to the borrowers US\$25 billion for the acquisition of Reynolds American Inc. Facilities A, B and C have been repaid and facility D, totalling the sterling equivalent of US\$2.5 billion, is still outstanding.	<ul style="list-style-type: none"> – should a borrower cease to be a direct or indirect subsidiary of the Company, such borrower shall immediately repay any outstanding advances made to it; and – where there is a change of control in respect of the Company, the lenders can require all amounts outstanding under the term loan facilities to be repaid.
Packaging Materials Agreement dated 8 April 2015, between Souza Cruz S.A. and Amcor Group GmbH for the production and supply of packaging for a value of R\$1.5 billion.	<ul style="list-style-type: none"> – that either party may terminate the agreement in the event of any direct or indirect acquisition of at least 25% of the voting shares of the supplier and/or its affiliates by directly or indirectly a competitor of Souza Cruz S.A., importer or distributor.
On 25 July 2017, the Company acceded as a guarantor under the indenture of its indirect, wholly-owned subsidiary Reynolds American Inc. The securities issued under the indenture include approximately US\$7.7 billion aggregate principal amount of unsecured Reynolds American Inc debt securities.	<ul style="list-style-type: none"> – with respect to each series of debt securities issued under the indenture, upon a change of control event, combined with a credit ratings downgrade of the series to below investment-grade level (such downgrade occurring on any date from the date of the public notice of an arrangement that could result in a change of control event until the end of the 60-day period following public notice of the occurrence of a change of control event), Reynolds American Inc. is obligated to make an offer to repurchase all debt securities from each holder of debt securities. As a guarantor under the indenture, the Company guarantees such payments.

LTIPs

The rules of the long-term incentive plans 2007 and 2016 (the LTIPs).

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



Other Information

Property, Plant and Equipment

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

BAT-owned manufacturing facilities¹

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

Note:

1. As of 31 December 2020.

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

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

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

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

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

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

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

Raw Materials

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

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

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



Other Information

US Corporate Governance Practices

Principles

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

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

Independence

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

Committees

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

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

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

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

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

Shareholder Approval of Equity Compensation Plans

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

Codes of Business Conduct and Ethics

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

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

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

Independent Director Contact

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



Other Information

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures

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

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

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

Management's report on internal control over financial reporting

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

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

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

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

Changes in internal control over financial reporting

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

Statements Regarding Competitive Position

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



Directors' Report Information

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

Strategic Report Disclosures

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

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

Shareholder Information Disclosures

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

Listing Rules (LRs) Disclosures

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

Directors: Interests and Indemnities

Interests	<ul style="list-style-type: none"> – details of Directors' remuneration and emoluments, and their interests in the Company's shares (including share options and deferred shares) as at 31 December 2020 are given in the Remuneration Report; and – no Director had any material interest in a contract of significance (other than a service contract) with the Company or any subsidiary company during the year.
Insurance	– appropriate cover provided in the event of legal action against the Company's Directors.
Indemnities	<ul style="list-style-type: none"> – provision of indemnities to Directors in accordance with the Company's Articles of Association and to the maximum extent permitted by law; and – as at the date of this report, such indemnities are in force covering any costs, charges, expenses or liabilities that they may incur in or about the execution of their duties to the Company or to any entity which is an associated company (as defined in Section 256 of the Companies Act 2006), or as a result of duties performed by them on behalf of the Company or any such associated company.

Directors' Report Approval and Signature

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



Other Information

Cautionary Statement

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

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

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

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

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

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



Share Prices and Listing

Premium Listing – London Stock Exchange (LSE)

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

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

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

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

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

Share Prices

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

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



Other Information

Dividends

Policy

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

Currencies and Exchange Rates

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

American Depositary Shares – Dividends

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

Announcement Year	Payment	Dividend period	Dividend per BAT ordinary share GBP	Dividend per BAT ADS ¹ ADS ratio 2:1 USD ²
2016	May	Final 2015	1.046	3.0292160
	September/October	Interim 2016	0.513	1.3324660
	Total		1.559	4.3616820
2017	May	Final 2016	1.181	1.5239380
	September/October	Interim 2017	0.565	0.7585690
	February 2018	Second Interim 2017	0.436	0.6068680
	Total		2.182	2.8893750
2018	May	Quarterly Interim 2018	0.488	0.6611420
	August	Quarterly Interim 2018	0.488	0.6281530
	November	Quarterly Interim 2018	0.488	0.6217120
	February 2019	Quarterly Interim 2018	0.488	0.6324960
Total		1.952	2.5435030	
2019	May	Quarterly Interim 2019	0.5075	0.6596990
	August	Quarterly Interim 2019	0.5075	0.6155970
	November	Quarterly Interim 2019	0.5075	0.6521370
	February 2020	Quarterly Interim 2019	0.5075	0.6571610
Total		2.0300	2.5845940	
2020	May	Quarterly Interim 2020	0.526	0.6424030
	August	Quarterly Interim 2020	0.526	0.6889020
	November	Quarterly Interim 2020	0.526	0.6895860
	February 2021	Quarterly Interim 2020	0.526	0.7178320
Total		2.104	2.738723	

Notes:

1. **ADS ratio change:** prior to 14 February 2017, each BAT ADS represented two BAT ordinary shares; from 14 February 2017, each BAT ADS represents one BAT ordinary share.

2. **Holders of BAT ADSs:** dividends are receivable in US dollars based on the £ sterling/US dollar exchange rate on the applicable ADS payment date, being three business days after the payment date for the BAT ordinary shares.



Quarterly Dividends for the Year Ended 31 December 2020

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

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

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

Holders of American Depositary Shares (ADSs)

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

South Africa branch register

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

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

Key dates

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

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

Other Information

Shareholder Taxation Information

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

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

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

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

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

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

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

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

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

ADSs

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

Taxation of Dividends

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



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

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

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

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

Passive foreign investment company

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

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

Taxation of capital gains

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

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

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



Other Information

Shareholder Taxation Information Continued

Information with respect to foreign financial assets

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

Medicare net investment tax

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

Credits or deductions for UK taxes

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

Information reporting and backup withholding

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

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

Material UK Tax Consequences

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

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

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

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

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



Tax on dividends

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

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

Stamp duty and stamp duty reserve tax (SDRT)

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

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

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

Inheritance tax

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

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

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



Other Information

Share Capital and Security Ownership

Share Capital

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

Note:

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

Authority to allot shares

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

Analyses of Shareholders

Ordinary Shares

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

(a) by listing as at 31 December 2020:

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

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

UK Register

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

South Africa Register

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

Combined registers

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

American Depository Shares (ADSs)

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

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

Note:

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

Security Ownership of Ordinary Shares

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

Security Ownership – Major Shareholders

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

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

Notes:

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

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

»On 23 February 2021, Spring Mountain Investments Ltd. notified the Company that on 19 February 2021 its interest had increased to 133,280,068 ordinary shares (5.8% of issued share capital), including 5,807,274 ordinary shares represented by ADRs.»

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

Additional Significant Shareholding Disclosure

»Capital Research Global Investors, a division of Capital Research and Management Company, filed with the SEC an amendment to Schedule 13G under the Exchange Act on 16 February 2021 disclosing that as of 31 December 2020 it beneficially owned 42,749,672 ordinary shares representing 1.9% of the Company's ordinary shares outstanding as of 31 December 2020.

Capital International Investors, a division of Capital Research and Management Company, filed with the SEC a statement on Schedule 13G under the Exchange Act on 16 February 2021 disclosing that as of 31 December 2020 it beneficially owned 122,341,746 ordinary shares representing 5.3% of the Company's ordinary shares outstanding as of 31 December 2020.»

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Security Ownership of the Board of Directors and the Management Board

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

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

Other Information

Share Capital and Security Ownership
Continued

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

Notes:

- The number of ordinary shares beneficially owned by the Executive Directors include ordinary shares awarded and required to be held for a period of at least three years in a UK-based trust under the SIP. Ordinary shares cannot be sold or transferred out of the trust until the end of the three-year holding period. The amounts next to the corresponding Executive Director include the following ordinary shares held in the trust under the SIP: (a) 685 ordinary shares for Mr Bowles, of which 421 have been held for less than three years; (b) 1,114 ordinary shares for Mr Marroco, of which 642 have been held for less than three years. In all cases, the beneficial owner of ordinary shares under the SIP may direct the trust to exercise its voting rights in accordance with his instructions. See footnote (5) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the SIP and the ordinary shares held thereunder.
- The number of ordinary shares beneficially owned by the Executive Directors include the following number of options granted under the LTIP that are scheduled to vest and may be exercised within 60 days of 16 February 2021: (a) 43,785 options under the LTIP for Mr Bowles; and (b) 28,248 options under the LTIP for Mr Marroco. Each option is convertible into one ordinary share upon exercise. See footnote (1) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the LTIP.
- The number of ordinary shares beneficially owned by the Executive Directors include the following number of awards of restricted ordinary shares granted under the DSBS that are scheduled to vest within 60 days of 16 February 2021: (a) 12,064 ordinary shares for Mr Bowles; (b) 7,783 ordinary shares for Mr Marroco. Until awards of ordinary shares under the DSBS vest, they are held in trust and the recipient of such award does not have the ability to transfer, sell or direct the voting of the applicable ordinary shares. See footnote (4) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the DSBS.
- The ordinary shares beneficially owned by Mr Fowden, Mr Jobin, Ms Koepfel and Mr Thomas are represented by ADSs, each of which represents one ordinary share.
- Ms Koepfel, being a former director of Reynolds American Inc. and a participant in the Deferred Compensation Plan for Directors of Reynolds American Inc. (DCP), holds DSUs which were granted prior to becoming a Director of BAT. Each DSU entitles the holder to receive a cash payment upon ceasing to be a Director equal to the value of one BAT ADS. The number of DSUs increases on each dividend date by reference to the value of dividends declared on the ADSs underlying the DSUs. Ms Koepfel currently holds 25,125.91 DSUs.
- The number of ordinary shares beneficially owned by the members of the Management Board include ordinary shares awarded and required to be held for a period of at least three years in a UK-based trust under the SIP. Ordinary shares cannot be sold or transferred out of the trust until the end of the three-year holding period. The amounts next to the corresponding Management Board member include the following ordinary shares held in the trust under the SIP: (a) 954 ordinary shares for Mr Abelman, of which 438 have been held for less than three years; (b) 366 ordinary shares for Ms Bellini, of which 247 have been held for less than three years; (c) 975 ordinary shares for Mr Comin, of which 442 have been held for less than three years; (d) 112 ordinary shares for Mr Khan, all of which have been held for less than three years; (e) 343 ordinary shares for Ms Kim, all of which have been held for less than three years; (f) 338 ordinary shares for Mr Lageweg, all of which have been held for less than three years; (g) 307 ordinary shares for Mr Meldrum, all of which have been held for less than three years; (h) 2,262 ordinary shares for Dr O'Reilly, of which 652 have been held for less than three years; (i) 923 ordinary shares for Mr Vandermeulen, of which 432 have been held for less than three years; and (j) 1,115 ordinary shares for Mr Wheaton, of which 484 have been held for less than three years. In all cases, the beneficial owner of ordinary shares under the SIP may direct the trust to exercise its voting rights in accordance with their instructions. See footnote (5) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the SIP and the ordinary shares held thereunder.
- The number of ordinary shares beneficially owned by the members of the Management Board include the following number of options granted under the LTIP that are scheduled to vest and may be exercised within 60 days of 16 February 2021: (a) 32,100 options under the LTIP for Mr Abelman; (b) 10,313 options under the LTIP for Mr Comin; (c) 6,158 options under the LTIP for Mr Khan; (d) 6,497 options under the LTIP for Ms Kim; (e) 11,471 options under the LTIP for Mr Lageweg; (f) 11,066 options under the LTIP for Mr Meldrum; (g) 24,364 options under the LTIP for Mr O'Reilly; (h) 6,673 options under the LTIP for Mr Dijanosic; (i) 30,335 options under the LTIP for Mr Vandermeulen; (j) 32,100 options under the LTIP for Mr Wheaton. Each option is convertible into one ordinary share upon exercise. See footnote (1) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the LTIP.
- The number of ordinary shares beneficially owned by the members of the Management Board include the following number of awards of restricted ordinary shares granted under the DSBS that are scheduled to vest within 60 days of 16 February 2021: (a) 8,844 ordinary shares for Mr Abelman; (b) 3,464 ordinary shares for Mr Comin; (c) 2,026 ordinary shares for Mr Khan; (d) 1,863 ordinary shares for Ms Kim; (e) 2,039 ordinary shares for Mr Lageweg; (f) 3,796 ordinary shares for Mr Meldrum; (g) 6,713 ordinary shares for Dr O'Reilly; (h) 2,259 ordinary shares for Mr Dijanosic; (i) 8,358 ordinary shares for Mr Vandermeulen; and (j) 8,358 ordinary shares for Mr Wheaton. Until awards of ordinary shares under the DSBS vest, they are held in trust and the recipient of such award does not have the ability to transfer, sell or direct the voting of the applicable ordinary shares. See footnote (4) to the table below under the heading 'Outstanding Share-based Awards and Options-based Awards of the Board of Directors and the Management Board' for additional details regarding the DSBS.
- The number of ordinary shares beneficially owned by Mr Lageweg includes 98,416 ADSs, each of which represents one ordinary share.
- The information in this column is based on 2,294,246,104 ordinary shares outstanding (excluding treasury shares) as of 15 February 2021. Any securities not outstanding subject to options, warrants, rights or conversion privileges that give the beneficial owner the right to acquire the securities within 60 days are deemed to be outstanding for the purpose of computing the percentage of outstanding securities of the class owned by such person but are not deemed to be outstanding for the purpose of computing the percentage of the class by any other person.

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

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

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Directors						
Jack Bowles						
LTIP ¹	43,785	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	176,532	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	223,129	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Total Options³	238,814					
DSBS ⁴	–	26 Mar 2018	–	–	12,064	26 Mar 2021
	–	28 Mar 2019	–	–	26,192	28 Mar 2022
	–	30 Mar 2020	–	–	53,618	30 Mar 2023
SIP ⁵	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	3	9 May 2021
	–	8 Aug 2018	–	–	4	8 Aug 2021
	–	15 Nov 2018	–	–	6	15 Nov 2021
	–	7 Feb 2019	–	–	7	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	6	8 May 2022
	–	8 Aug 2019	–	–	8	8 Aug 2022
	–	14 Nov 2019	–	–	9	14 Nov 2022
	–	6 Feb 2020	–	–	7	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	9	13 May 2023
	–	19 Aug 2020	–	–	13	19 Aug 2023
	–	12 Nov 2020	–	–	12	12 Nov 2023
	–	5 Feb 2021	–	–	13	5 Feb 2024
Total Restricted Share Awards⁶					92,278	

Other Information

Share Capital and Security Ownership
Continued

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Tadeu Marroco						
LTIP ¹	28,248	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	36,057	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	113,938	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Sharesave ²	266	28 Mar 2018	33.76	42.20	–	1 May 2021 – 31 Oct 2021
	624	30 Mar 2020	24.01	26.35	–	1 May 2025 – 31 Oct 2025
Total Options³	179,133					
DSBS ⁴	–	26 Mar 2018	–	–	7,783	26 Mar 2021
	–	28 Mar 2019	–	–	13,233	28 Mar 2022
	–	30 Mar 2020	–	–	24,388	30 Mar 2023
SIP ⁵	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	6	9 May 2021
	–	8 Aug 2018	–	–	7	8 Aug 2021
	–	15 Nov 2018	–	–	10	15 Nov 2021
	–	7 Feb 2019	–	–	11	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	11	8 May 2022
	–	8 Aug 2019	–	–	13	8 Aug 2022
	–	14 Nov 2019	–	–	14	14 Nov 2022
	–	6 Feb 2020	–	–	12	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	14	13 May 2023
	–	19 Aug 2020	–	–	21	19 Aug 2023
	–	12 Nov 2020	–	–	20	12 Nov 2023
	–	5 Feb 2021	–	–	21	5 Feb 2024
Total Restricted Share Awards⁶					45,871	

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Management Board						
Jerome Abelman						
LTIP ¹	32,100	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	37,560	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	40,676	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan ⁷	10,653	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Total Options³	120,989					
DSBS ⁴	–	26 Mar 2018	–	–	8,844	26 Mar 2021
	–	28 Mar 2019	–	–	13,785	28 Mar 2022
	–	30 Mar 2020	–	–	15,824	30 Mar 2023
SIP ⁵	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	4	9 May 2021
	–	8 Aug 2018	–	–	5	8 Aug 2021
	–	15 Nov 2018	–	–	8	15 Nov 2021
	–	7 Feb 2019	–	–	9	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	9	8 May 2022
	–	8 Aug 2019	–	–	10	8 Aug 2022
	–	14 Nov 2019	–	–	11	14 Nov 2022
	–	6 Feb 2020	–	–	10	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	12	13 May 2023
	–	19 Aug 2020	–	–	18	19 Aug 2023
	–	12 Nov 2020	–	–	17	12 Nov 2023
	–	5 Feb 2021	–	–	18	5 Feb 2024
Total Restricted Share Awards⁶					38,891	
Marina Bellini						
LTIP ¹	29,296	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	31,105	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan ⁷	8,146	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Sharesave ²	785	28 Mar 2019	22.91	28.63	–	1 May 2022 – 31 Oct 2022
Total Options³	69,332					
DSBS ⁴	–	28 Mar 2019	–	–	5,525	28 Mar 2022
	–	30 Mar 2020	–	–	12,101	30 Mar 2023
SIP ⁵	–	1 Apr 2019	–	–	99	1 Apr 2022
	–	8 Aug 2019	–	–	1	8 Aug 2022
	–	14 Nov 2019	–	–	3	14 Nov 2022
	–	6 Feb 2020	–	–	2	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	2	13 May 2023
	–	19 Aug 2020	–	–	7	19 Aug 2023
	–	12 Nov 2020	–	–	6	12 Nov 2023
	–	5 Feb 2021	–	–	2	5 Feb 2024
Total Restricted Share Awards⁶					17,873	

Other Information

Share Capital and Security Ownership
Continued

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Luciano Comin						
LTIP ¹	10,313	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	31,550	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	33,497	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan ⁷	8,773	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Sharesave ²	533	28 Mar 2018	33.76	42.20	–	1 May 2021 – 31 Oct 2021
Total Options³	84,666					
DSBS ⁴	–	26 Mar 2018	–	–	3,464	26 Mar 2021
	–	28 Mar 2019	–	–	5,084	28 Mar 2022
	–	30 Mar 2020	–	–	13,032	30 Mar 2023
SIP ⁵	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	5	9 May 2021
	–	8 Aug 2018	–	–	5	8 Aug 2021
	–	15 Nov 2018	–	–	9	15 Nov 2021
	–	7 Feb 2019	–	–	8	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	9	8 May 2022
	–	8 Aug 2019	–	–	11	8 Aug 2022
	–	14 Nov 2019	–	–	12	14 Nov 2022
	–	6 Feb 2020	–	–	10	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	13	13 May 2023
	–	19 Aug 2020	–	–	18	19 Aug 2023
	–	12 Nov 2020	–	–	17	12 Nov 2023
	–	5 Feb 2021	–	–	18	5 Feb 2024
Total Restricted Share Awards⁶					22,022	
Michael Dijanosic						
LTIP ¹	6,673	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	8,299	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	7,739	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan ⁷	2,149	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Total Options³	24,860					
DSBS ⁴	–	26 Mar 2018	–	–	2,259	26 Mar 2021
	–	28 Mar 2019	–	–	2,827	28 Mar 2022
	–	30 Mar 2020	–	–	2,746	30 Mar 2023
Total Restricted Share Awards⁶					7,832	



	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Zafar Khan						
LTIP ¹	6,158	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	8,862	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	8,855	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan ⁷	2,459	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Total Options³	26,334					
DSBS ⁴	–	26 Mar 2018	–	–	2,026	26 Mar 2021
	–	28 Mar 2019	–	–	2,981	28 Mar 2022
	–	30 Mar 2020	–	–	3,062	30 Mar 2023
SIP ⁵	–	1 Apr 2019	–	–	112	1 Apr 2022
Total Restricted Share Awards⁶					8,181	
Hae In Kim						
LTIP ¹	6,497	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	30,048	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	31,902	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan ⁷	8,355	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Sharesave ²	533	28 Mar 2018	33.76	42.20	–	1 May 2021 – 31 Oct 2021
Total Options³	76,335					
DSBS ⁴	–	26 Mar 2018	–	–	1,863	26 Mar 2021
	–	28 Mar 2019	–	–	3,798	28 Mar 2022
	–	30 Mar 2020	–	–	12,411	30 Mar 2023
SIP ⁵	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	15 Nov 2018	–	–	2	15 Nov 2021
	–	7 Feb 2019	–	–	1	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	1	8 May 2022
	–	8 Aug 2019	–	–	3	8 Aug 2022
	–	14 Nov 2019	–	–	4	14 Nov 2022
	–	6 Feb 2020	–	–	3	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	3	13 May 2023
	–	19 Aug 2020	–	–	7	19 Aug 2023
	–	12 Nov 2020	–	–	6	12 Nov 2023
	–	5 Feb 2021	–	–	6	5 Feb 2024
Total Restricted Share Awards⁶					18,415	

Other Information

Share Capital and Security Ownership
Continued

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Paul Lageweg						
LTIP ¹	4,540	28 Mar 2014	0.00	32.58	–	28 Mar 2017 – 27 Mar 2024
	8,954	27 Mar 2015	0.00	36.25	–	27 Mar 2018 – 26 Mar 2025
	5,956	12 May 2016	0.00	42.34	–	12 May 2019 – 11 May 2026
	8,234	27 Mar 2017	0.00	52.11	–	27 Mar 2020 – 26 Mar 2027
	11,471	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	29,296	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	31,105	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan ⁷	8,146	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Sharesave ²	1,309	28 Mar 2019	22.91	28.63	–	1 May 2024 – 31 Oct 2024
Total Options³	109,011					
DSBS ⁴	–	26 Mar 2018	–	–	2,039	26 Mar 2021
	–	28 Mar 2019	–	–	5,265	28 Mar 2022
	–	30 Mar 2020	–	–	12,101	30 Mar 2023
SIP ⁵	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	1	9 May 2021
	–	15 Nov 2018	–	–	1	15 Nov 2021
	–	7 Feb 2019	–	–	1	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	1	8 May 2022
	–	8 Aug 2019	–	–	2	8 Aug 2022
	–	14 Nov 2019	–	–	3	14 Nov 2022
	–	6 Feb 2020	–	–	2	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	3	13 May 2023
	–	19 Aug 2020	–	–	6	19 Aug 2023
	–	12 Nov 2020	–	–	5	12 Nov 2023
	–	5 Feb 2021	–	–	6	5 Feb 2024
Total Restricted Share Awards⁶					19,743	
Guy Meldrum						
LTIP ¹	11,066	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	31,550	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	33,497	30 Mar 2030	0.00	26.33	–	30 Mar 2023 – 30 Mar 2030
Restricted Share Plan ⁷	8,773	30 Mar 2030	0.00	26.33	–	30 Mar 2030
Total Options³	84,886					
DSBS ⁴	–	26 Mar 2018	–	–	3,796	26 Mar 2021
	–	28 Mar 2019	–	–	5,651	28 Mar 2022
	–	30 Mar 2020	–	–	13,032	30 Mar 2023
SIP ⁵	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	1 Apr 2020	–	–	125	1 Apr 2023
Total Restricted Share Awards⁶					22,786	

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Dr David O'Reilly						
LTIP ¹	24,364	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	30,048	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	32,540	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan ⁷	8,522	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Total Options³	95,474					
DSBS ⁴	–	26 Mar 2018	–	–	6,713	26 Mar 2021
	–	28 Mar 2019	–	–	11,028	28 Mar 2022
	–	30 Mar 2020	–	–	12,659	30 Mar 2023
SIP ⁵	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	21	9 May 2021
	–	8 Aug 2018	–	–	19	8 Aug 2021
	–	15 Nov 2018	–	–	29	15 Nov 2021
	–	7 Feb 2019	–	–	31	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	31	8 May 2022
	–	8 Aug 2019	–	–	32	8 Aug 2022
	–	14 Nov 2019	–	–	33	14 Nov 2022
	–	6 Feb 2020	–	–	29	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	34	13 May 2023
–	19 Aug 2020	–	–	44	19 Aug 2023	
–	12 Nov 2020	–	–	42	12 Nov 2023	
–	5 Feb 2021	–	–	43	5 Feb 2024	
Total Restricted Share Awards⁶					31,095	
Johan Vandermeulen						
LTIP ¹	30,335	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	39,438	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	41,872	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan ⁷	10,966	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Total Options³	122,611					
DSBS ⁴	–	26 Mar 2018	–	–	8,358	26 Mar 2021
	–	28 Mar 2019	–	–	13,785	28 Mar 2022
	–	30 Mar 2020	–	–	16,290	30 Mar 2023
SIP ⁵	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	4	9 May 2021
	–	8 Aug 2018	–	–	5	8 Aug 2021
	–	15 Nov 2018	–	–	7	15 Nov 2021
	–	7 Feb 2019	–	–	8	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	8	8 May 2022
	–	8 Aug 2019	–	–	10	8 Aug 2022
	–	14 Nov 2019	–	–	11	14 Nov 2022
	–	6 Feb 2020	–	–	10	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	11	13 May 2023
–	19 Aug 2020	–	–	18	19 Aug 2023	
–	12 Nov 2020	–	–	16	12 Nov 2023	
–	5 Feb 2021	–	–	17	5 Feb 2024	
Total Restricted Share Awards⁶					38,865	

Other Information

Share Capital and Security Ownership
Continued

	Number of Options Held	Date of Grant/Award	Options Exercise Price £	Market Price at Date of Grant of Option £	Number of Shares Awarded	Exercisable (LTIP/Sharesave) Vesting (DSBS/SIP)
Kingsley Wheaton						
LTIP ¹	32,100	26 Mar 2018	0.00	38.94	–	26 Mar 2021 – 25 Mar 2028
	43,194	28 Mar 2019	0.00	33.28	–	28 Mar 2022 – 27 Mar 2029
	46,777	30 Mar 2020	0.00	26.33	–	30 Mar 2023 – 29 Mar 2030
Restricted Share Plan ⁷	12,251	30 Mar 2020	0.00	26.33	–	30 Mar 2023
Sharesave ²	1,309	28 Mar 2019	22.91	28.63	–	1 May 2024 – 31 Oct 2024
Total Options³	135,631					
DSBS ⁴	–	26 Mar 2018	–	–	8,358	26 Mar 2021
	–	28 Mar 2019	–	–	13,785	28 Mar 2022
	–	30 Mar 2020	–	–	18,198	30 Mar 2023
SIP ⁵	–	3 Apr 2018	–	–	70	3 Apr 2021
	–	9 May 2018	–	–	8	9 May 2021
	–	8 Aug 2018	–	–	8	8 Aug 2021
	–	15 Nov 2018	–	–	13	15 Nov 2021
	–	7 Feb 2019	–	–	13	7 Feb 2022
	–	1 Apr 2019	–	–	112	1 Apr 2022
	–	8 May 2019	–	–	13	8 May 2022
	–	8 Aug 2019	–	–	14	8 Aug 2022
	–	14 Nov 2019	–	–	16	14 Nov 2022
	–	6 Feb 2020	–	–	13	6 Feb 2023
	–	1 Apr 2020	–	–	125	1 Apr 2023
	–	13 May 2020	–	–	15	13 May 2023
	–	19 Aug 2020	–	–	22	19 Aug 2023
	–	12 Nov 2020	–	–	20	12 Nov 2023
	–	5 Feb 2021	–	–	22	5 Feb 2024
Total Restricted Share Awards⁶					40,825	

Notes:

Options

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

Restricted Share Awards

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

Articles of Association

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

Share capital – structure

Ordinary shares

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

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

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

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

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

Dividend rights

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

Share capital – voting rights

Voting at general meetings

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

Matters transacted at general meetings

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

Other Information

Articles of Association Continued

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

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

Restrictions on transfers of shares

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

Repurchase of shares

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

Directors

Appointment and retirement

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

Disclosure of interests

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

Meetings and voting

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

Borrowing powers

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



Additional disclosures

Disclosure of ownership of shares

There are no provisions in the Articles whereby persons acquiring, holding or disposing of a certain percentage of the Company's ordinary shares are required to make disclosure of their ownership percentage, although there are such requirements under statute and regulation.

Director retirement

There is no requirement for a director to retire on reaching any age.

Sinking Funds

There is no sinking fund provision in the Articles applicable to the Company's ordinary shares.

Limitations on voting and shareholding

There are no limitations under the Articles restricting the right of non-resident or foreign owners to hold or vote ordinary shares in the Company.

Distribution of assets on a winding up

If the Company is wound up, the liquidator may, with the sanction of a special resolution and any other sanction required by law, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he may with the like sanction determine, but no member shall be compelled to accept any assets upon which there is a liability.

Anti-takeover devices and change of control

There are no provisions in the Articles that would have the effect of delaying, deferring or preventing a takeover, or change of control, of the Company. Under English law, the Company's directors have a fiduciary duty to take only those actions that are in the interests of the Company and any anti-takeover devices employed by the directors in the future, if any, must accordingly be in the interests of the Company. The Company is also subject to the City Code on Takeovers and Mergers (the "City Code"), which governs the conduct of mergers and takeovers in the UK. Any takeover of the Company would have to be in accordance with the City Code.



Other Information

Purchase of Shares

Renewal of Authority for Company to Purchase Own Shares

Current authority to purchase shares	<ul style="list-style-type: none"> – this authority (granted at the 2020 AGM) will expire at the 2021 AGM; the share buy-back programme was suspended with effect from 30 July 2014; and – renewed authority to purchase the Company's ordinary shares in order that the appropriate mechanisms are in place to enable the share buy-back programme to be reinstated at any time and authority would be exercised when, in the opinion of the Directors, the exercise of the authority would result in an increase in the Company's earnings per share and would be in the interest of its shareholders generally.
Proposed authority to purchase shares	<ul style="list-style-type: none"> – the minimum price that may be paid for such shares is 25p, and the maximum price is the higher of: (i) an amount equal to 105% of the average of the middle-market prices shown in the quotation for an ordinary share as derived from the LSE Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid for an ordinary share in the Company on the trading venues where the market purchases by the Company will be carried out; – in the absence of the necessary practical arrangements, the proposed authority has not been extended to enable BAT to purchase its own ordinary shares on the JSE in South Africa or the NYSE in the form of ADSs; and – further details are set out in the Notice of Annual General Meeting 2021 which is made available to all shareholders and is published on bat.com.
Treasury shares	<ul style="list-style-type: none"> – in accordance with the Company's policy, any repurchased shares are expected to be held as treasury shares; at 31 December 2020, the number of treasury shares was 162,347,246 (2019: 162,645,590); no dividends are paid on treasury shares; treasury shares have no voting rights; and treasury shares may be resold at a later date.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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

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

Notes:

1. There was no publicly announced plan for BAT to purchase its own ordinary shares or ADSs during the year ended 31 December 2020.

2. All the purchases of ordinary shares were made on open market transactions.

Group Employee Trust

The British American Tobacco Group Employee Trust (BATGET)

Function	<ul style="list-style-type: none"> – used to satisfy the vesting and exercise of awards of ordinary shares under the BAT Deferred Share Bonus Scheme and Long-Term Incentive Plans; and – a committee of senior management reporting to the Board's Share Schemes Committee monitors the number of ordinary shares held in BATGET to satisfy outstanding awards.
Funding	<ul style="list-style-type: none"> – funded by interest-free loan facilities from the Company totalling £1 billion; – this enables BATGET to facilitate the purchase of ordinary shares to satisfy the future vesting or exercise of options and awards; – loan to BATGET: £795.02 million at 31 December 2020 (2019: £788.24 million); – the loan is either repaid from the proceeds of the exercise of options or, in the case of ordinary shares acquired by BATGET to satisfy the vesting and exercise of awards, the Company will subsequently waive the loan provided over the life of the awards; and – if any options lapse, ordinary shares may be sold by BATGET to cover the loan repayment.

		1 Jan 2020	31 Dec 2020
Ordinary shares held in BATGET	Number of ordinary shares	8,049,187	5,787,154
	Market value of ordinary shares	£260.1m	£156.7m
	% of issued share capital of Company	0.33	0.24
Dividends paid in 2020	<ul style="list-style-type: none"> – BATGET currently waives dividends on the ordinary shares held by it; and – quarterly interim dividends 2020: £14.50 million across 2020. 		
Voting rights	<ul style="list-style-type: none"> – the trustee does not exercise any voting rights while ordinary shares are held in BATGET; and – share scheme participants may exercise the voting rights attaching to those ordinary shares once the ordinary shares have been transferred out of BATGET. 		

Notes:

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

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

Note:

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

Other Information

American Depositary Shares

Fees and Charges Payable by ADS Holders

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

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

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

Notes:

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

Contact details for Citibank Shareholder Services are on page 343.

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

Fees and Payments Made by the Depositary to BAT

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

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

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



Shareholding Administration and Services

United Kingdom Registrar

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

www.computershare.com/uk/investor/bri

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

www.computershare.com/dealing/uk

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

South Africa Registrar

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

American Depositary Shares

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

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

Documents on Display and Publications

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

Contact:

British American Tobacco Publications
Unit 80, London Industrial Park, Roding Road, London E6 6LS
tel: +44 20 7511 7797
email: bat@team365.co.uk

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

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

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

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

Our Website – www.bat.com

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

Dividend Reinvestment Plan

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

Individual Savings Accounts (ISAs)

A British American Tobacco sponsored ISA – contact:

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

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

Capital gains tax

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

Share Fraud

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

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

Calendar 2021

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

Other Information

Exhibits

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

Exhibit Number	Description
1	Articles of Association of British American Tobacco p.l.c.¹
2.1	Second Amended and Restated Deposit Agreement, dated as of 26 November 2018, by and among British American Tobacco p.l.c., Citibank, N.A., as depositary bank, and all holders and beneficial owners of American Depositary Shares issued thereunder.²
2.2	Indenture, dated as of 15 August 2017, among British American Tobacco p.l.c. and certain of its subsidiaries as guarantors, and Wilmington Trust, National Association, as Trustee.³
2.3	Supplemental Indenture No. 1, dated as of 28 September 2018, among British American Tobacco p.l.c. and certain of its subsidiaries as guarantors, and Wilmington Trust, National Association, as Trustee.⁴
2.4	Indenture, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as trustee, authentication agent, transfer agent, registrar, calculation agent and initial paying agent.⁵
2.5	Supplemental Indenture No. 1, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.⁶
2.6	Supplemental Indenture No. 2, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.⁷
2.7	Supplemental Indenture No. 3, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.⁸
2.8	Supplemental Indenture No. 4, dated as of 6 September 2019, by and among B.A.T Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.⁹
2.9	Supplemental Indenture No. 5, dated as of 2 April 2020, by and among B.A.T. Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.¹⁰
2.10	Supplemental Indenture No. 6, dated as of 2 April 2020, by and among B.A.T. Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.¹¹
2.11	Supplemental Indenture No. 7, dated as of 2 April 2020, by and among B.A.T. Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.¹²
2.12	Supplemental Indenture No. 8, dated as of 25 September 2020, by and among B.A.T. Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.¹³
2.13	Supplemental Indenture No. 9, dated as of 25 September 2020, by and among B.A.T. Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.¹⁴
2.14	Supplemental Indenture No. 10, dated as of 25 September 2020, by and among B.A.T. Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.¹⁵
2.15	Supplemental Indenture No. 11, dated as of 25 September 2020, by and among B.A.T. Capital Corporation, the Guarantors party thereto and Citibank, N.A., as Trustee.¹⁶
2.16	Indenture, dated as of 25 September 2020, by and among B.A.T. International Finance p.l.c., the Guarantors party thereto and Citibank, N.A., as trustee, authentication agent, transfer agent, registrar, calculation agent and initial paying agent.¹⁷
2.17	Supplemental Indenture No. 1, dated as of 25 September 2020, by and among B.A.T. International Finance p.l.c., the Guarantors party thereto and Citibank, N.A., as Trustee.¹⁸
2.18	Thirty-second Supplemental Trust Deed, dated 31 March 2020, by and among B.A.T. International Finance p.l.c., B.A.T Capital Corporation, B.A.T. Netherlands Finance B.V., British American Tobacco p.l.c. and the Law Debenture Trust Corporation p.l.c., further modifying the Trust Deed, dated as of 6 July 1998 (as previously modified and restated) relating to the US\$3,000,000,000 (now £25,000,000,000) Euro Medium Term Note Programme.
2.19	Description of Securities registered under Section 12 of the Exchange Act.
4.1	Term loan facilities agreement, dated as of 16 January 2017, among B.A.T. International Finance p.l.c. and B.A.T Capital Corporation, as original borrowers, British American Tobacco p.l.c., as guarantor, HSBC Bank plc, as agent, HSBC Bank USA, National Association, as US agent and the lenders and financial institutions party thereto.¹⁹
4.2	Rules of the British American Tobacco 2007 Long-Term Incentive Plan.²⁰
4.3	Rules of the British American Tobacco 2016 Long-Term Incentive Plan (Amended and Restated as of 19 February 2021).
4.4	British American Tobacco p.l.c. Deferred Annual Share Bonus Scheme.²¹
4.5	Annex to British American Tobacco p.l.c. Deferred Annual Share Bonus Scheme.²²
4.6	British American Tobacco p.l.c. 2019 Deferred Annual Share Bonus Scheme.²³
4.7	Rules of the British American Tobacco Restricted Share Plan.²⁴
4.8	Deferred Compensation Plan for Directors of Reynolds American Inc. (Amended and Restated Effective 30 November 2007).²⁵
4.9	Service Contract between British American Tobacco p.l.c. and Jack Bowles, dated as of 11 December 2018.²⁶
4.10	Service Contract between British American Tobacco p.l.c. and Tadeu Marroco, dated as of 27 February 2019.²⁷
4.11	Master Settlement Agreement, referred to as the MSA, dated 23 November 1998, between the Settling States named in the MSA and the Participating Manufacturers also named therein.²⁸
4.12	Settlement Agreement dated 25 August 1997, between the State of Florida and settling defendants in The State of Florida v. American Tobacco Co.²⁹
4.13	Comprehensive Settlement Agreement and Release dated 16 January 1998, between the State of Texas and settling defendants in The State of Texas v. American Tobacco Co.³⁰
4.14	Settlement Agreement and Release in re: The State of Minnesota v. Philip Morris, Inc., by and among the State of Minnesota, Blue Cross and Blue Shield of Minnesota and the various tobacco company defendants named therein, dated as of 8 May 1998.³¹
4.15	Settlement Agreement and Stipulation for Entry of Consent Judgment in re: The State of Minnesota v. Philip Morris, Inc., by and among the State of Minnesota, Blue Cross and Blue Shield of Minnesota and the various tobacco company defendants named therein, dated as of 8 May 1998.³²
4.16	Form of Consent Judgment by Judge Kenneth J. Fitzpatrick, Judge of District Court in re: The State of Minnesota v. Philip Morris, Inc.³³
4.17	Stipulation of Amendment to Settlement Agreement and for Entry of Agreed Order dated 2 July 1998, by and among the Mississippi Defendants, Mississippi and the Mississippi Counsel in connection with the Mississippi Action.³⁴
4.18	Stipulation of Amendment to Settlement Agreement and for Entry of Consent Decree dated 24 July 1998, by and among the Texas Defendants, Texas and the Texas Counsel in connection with the Texas Action.³⁵

Exhibit Number	Description
4.19	Stipulation of Amendment to Settlement Agreement and for Entry of Consent Decree dated 11 September 1998, by and among the State of Florida and the tobacco companies named therein.³⁶
4.20	Term Sheet agreed to by R. J. Reynolds Tobacco Company, an indirect subsidiary of Reynolds American Inc., certain other Participating Manufacturers, 17 states, the District of Columbia and Puerto Rico.³⁷
4.21	Revolving credit facilities agreement, dated as of 12 March 2020, among British American Tobacco p.l.c., B.A.T. International Finance p.l.c., B.A.T. Netherlands Finance B.V. and B.A.T. Capital Corporation, as borrowers, British American Tobacco p.l.c., as guarantor, HSBC Bank plc, as agent and euro swingline agent, HSBC Bank USA, National Association, as US agent and US\$ swingline agent, and the banks and financial institutions party thereto.³⁸
8	List of Subsidiaries included on pages 254 to 263 in this report.
11	Code of Ethics.³⁹
12	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13	Certification under Section 906 of the Sarbanes-Oxley Act of 2002.⁴⁰
15	Consent of KPMG LLP, independent registered public accounting firm.
101	Interactive Data Files (formatted in XBRL (Extensible Business Reporting Language) and furnished electronically).

Notes:

- Incorporated by reference to Exhibit 3.1 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
- Incorporated by reference to Exhibit 4.1 to BAT's Registration Statement on Form S-8 (Reg. No. 333-237186) filed on 16 March 2020.
- Incorporated by reference to Exhibit 2.4 to BAT's Annual Report on Form 20-F for the year ended 31 December 2017 filed on 15 March 2018.
- Incorporated by reference to Exhibit 4.2 to BAT's Registration Statement on Form F-4 (Reg. No. 333-227658) filed on 2 October 2018.
- Incorporated by reference to Exhibit 4.1 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
- Incorporated by reference to Exhibit 4.2 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
- Incorporated by reference to Exhibit 4.3 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
- Incorporated by reference to Exhibit 4.4 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
- Incorporated by reference to Exhibit 4.5 to British American Tobacco p.l.c.'s Form 6-K filed on 6 September 2019.
- Incorporated by reference to Exhibit 4.6 to British American Tobacco p.l.c.'s Form 6-K filed on 2 April 2020.
- Incorporated by reference to Exhibit 4.7 to British American Tobacco p.l.c.'s Form 6-K filed on 2 April 2020.
- Incorporated by reference to Exhibit 4.8 to British American Tobacco p.l.c.'s Form 6-K filed on 2 April 2020.
- Incorporated by reference to Exhibit 4.9 to British American Tobacco p.l.c.'s Form 6-K filed on 25 September 2020.
- Incorporated by reference to Exhibit 4.10 to British American Tobacco p.l.c.'s Form 6-K filed on 25 September 2020.
- Incorporated by reference to Exhibit 4.11 to British American Tobacco p.l.c.'s Form 6-K filed on 25 September 2020.
- Incorporated by reference to Exhibit 4.12 to British American Tobacco p.l.c.'s Form 6-K filed on 25 September 2020.
- Incorporated by reference to Exhibit 4.13 to British American Tobacco p.l.c.'s Form 6-K filed on 25 September 2020.
- Incorporated by reference to Exhibit 4.14 to British American Tobacco p.l.c.'s Form 6-K filed on 25 September 2020.
- Incorporated by reference to Exhibit 99.13 to BAT's Amendment No. 4 to Schedule 13D filed on 17 January 2017.
- Incorporated by reference to Exhibit 10.6 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
- Incorporated by reference to Exhibit 10.8 to BAT's Registration Statement on Form F-4 (Reg. No. 333-217939) filed on 12 May 2017.
- Incorporated by reference to Exhibit 4.0 to BAT's Annual Report on Form 20-F for the year ended 31 December 2018 filed on 15 March 2019.
- Incorporated by reference to Exhibit 4.7 to BAT's Annual Report on Form 20-F for the year ended 31 December 2018 filed on 15 March 2019.
- Incorporated by reference to Exhibit 4.2 to BAT's Registration Statement on Form S-8 (Reg. No. 333-237186) filed on 16 March 2020.
- Incorporated by reference to Exhibit 10.43 to Reynolds American Inc.'s Annual Report on Form 10-K for the fiscal year ended 31 December 2007 filed on 27 February 2008.
- Incorporated by reference to Exhibit 4.11 to BAT's Annual Report on Form 20-F for the year ended 31 December 2018 filed on 15 March 2019.
- Incorporated by reference to Exhibit 4.14 to BAT's Annual Report on Form 20-F for the year ended 31 December 2019 filed on 26 March 2020.
- Incorporated by reference to Exhibit 4 to R.J. Reynolds Tobacco Holdings, Inc.'s Form 8-K dated 24 November 1998.
- Incorporated by reference to Exhibit 2 to R.J. Reynolds Tobacco Holdings, Inc.'s Form 8-K dated 5 September 1997.
- Incorporated by reference to Exhibit 2 to R.J. Reynolds Tobacco Holdings, Inc.'s Form 8-K dated 27 January 1998.
- Incorporated by reference to Exhibit 99.1 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 March 1998 filed on 15 May 1998.
- Incorporated by reference to Exhibit 99.2 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 March 1998 filed on 15 May 1998.
- Incorporated by reference to Exhibit 99.3 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 March 1998 filed on 15 May 1998.
- Incorporated by reference to Exhibit 99.2 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 June 1998 filed on 14 August 1998.
- Incorporated by reference to Exhibit 99.4 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 June 1998 filed on 14 August 1998.
- Incorporated by reference to Exhibit 99.1 to R.J. Reynolds Tobacco Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended 30 September 1998 filed on 12 November 1998.
- Incorporated by reference to Exhibit 10.1 to Reynolds American Inc.'s Form 8-K dated 12 March 2013.
- Incorporated by reference to Exhibit 4.25 to BAT's Annual Report on Form 20-F for the year ended 31 December 2019 filed on 26 March 2020.
- Incorporated by reference to Exhibit 11 to BAT's Annual Report on Form 20-F for the year ended 31 December 2017 filed on 15 March 2018.
- These certifications are furnished only and are not filed as part of BAT's Annual Report on Form 20-F for the year ended 31 December 2020.

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



Other Information

Glossary

ADR	American Depositary Receipt
ADS	American Depositary Share – 1 ADS is equivalent to 1 BAT ordinary share
AGM	Annual General Meeting
AmSSA	Americas (excluding US) and Sub-Saharan Africa
APFO	Adjusted profit from operations
APME	Asia-Pacific and Middle East
BATGET	British American Tobacco Group Employee Trust
bps	Basis points
CC	Constant currency
CGFO	Cash generated from operations
CO ₂ e	Carbon dioxide equivalent
Code	UK Corporate Governance Code, July 2018 version
CSR	Corporate Social Responsibility
DSBS	Deferred share bonus scheme
EMTN	European Medium Term Notes
ENA	Europe and North Africa
EPS	Earnings per share
ESG	Environmental, Social and Governance
EU	European Union
FII GLO	Franked Investment Income Group Litigation Order
FCTC	Framework Convention on Tobacco Control
FMCG	Fast Moving Consumer Goods
GAAP	Generally Accepted Accounting Practice
GDB	Global Drive Brands, being Kent, Dunhill, Pall Mall, Lucky Strike and Rothmans
GDPR	EU General Data Protection Regulation
GDSB	Global Drive and Key Strategic Brands, being the GDBs, plus Shuang Xi and State Express 555
GJ	Gigajoules (of energy use)
IASB	International Accounting Standards Board
IEIS	International Executive Incentive Scheme
IFRS	International Financial Reporting Standards as issued by the IASB and as adopted by the EU
ISA	International Standards on Auditing
JSE	Johannesburg Stock Exchange
KPI	Key performance indicator
LIBOR	London Interbank Offered Rate
LSE	London Stock Exchange
LR	Listing Rules
LTIP	Long-Term Incentive Plan
MCE	Million cigarettes equivalent

MSA	Master Settlement Agreement
NGP	Next Generation Product
NRT	Nicotine Replacement Therapy
NTO	Net turnover or revenue
NYSE	New York Stock Exchange
OCF	Operating cash flow
OECD	Organisation for Economic Co-operation and Development
OTP	Other tobacco products, including but not limited to roll-your-own, make-your-own and cigars
Parker Report	The Parker Review Committee's final report on ethnic diversity in UK boards published on 12 October 2017
PCAOB	Public Company Accounting Oversight Board
Reynolds American	Reynolds American Inc.
Reynolds American Companies	British American Tobacco US companies
SAFL	Sustainable Agriculture and Farmer Livelihoods
SEC	United States Securities and Exchange Commission
SIP	Share incentive plan
SoBC	Group Standards of Business Conduct
SOx	United States Sarbanes-Oxley Act of 2002
SRS	Share reward scheme
TaO	Programme to implement the new operating model, including one instance of SAP
TCFD	Taskforce on Climate-related Financial Disclosures
TDR	TDR d.o.o
THP	Tobacco Heating Products (i.e. the devices) or Tobacco Heated Products (i.e. the consumables used by such devices)
TPD1	European Tobacco Products Directive (directive 2001/37/EC)
TPD2	European Tobacco and Related Products Directive (directive 2014/40/EU)
TSR	Total shareholder return
US	United States of America
UURBS	Unfunded unapproved retirement benefit scheme
WHO	World Health Organization



Cross-Reference to Form 20-F

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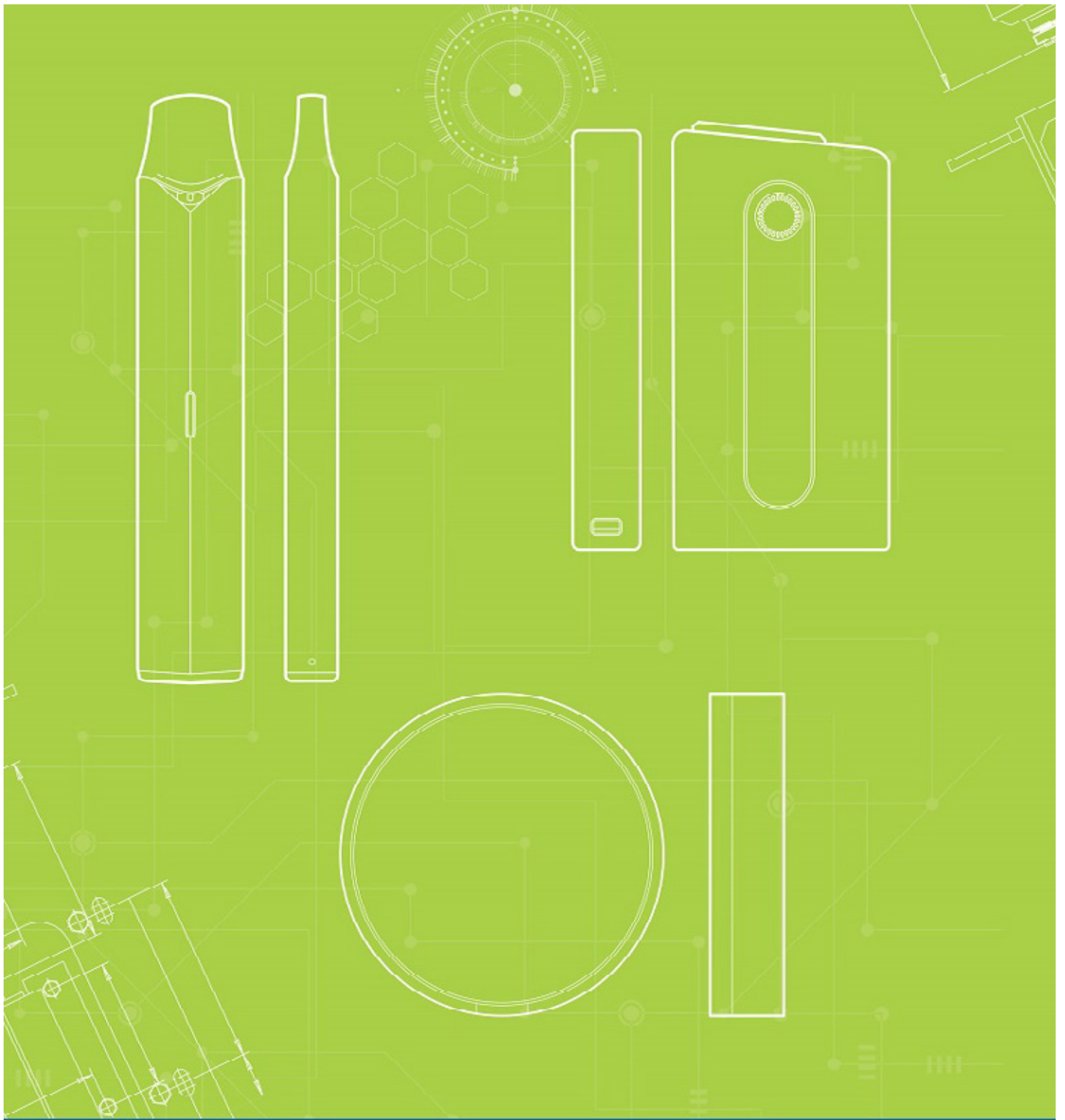
KPMG LLP
15 Canada Square, Canary Wharf, London E14 5GL

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

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





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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: 9 March 2021

British American Tobacco p.l.c.
(Registrant)

By: /s/ Paul McCrory
Paul McCrory
Company Secretary

EXECUTION VERSION

THIRTY-SECOND SUPPLEMENTAL TRUST DEED

31 MARCH 2020

B.A.T. INTERNATIONAL FINANCE p.l.c.

and

B.A.T CAPITAL CORPORATION

and

B.A.T. NETHERLANDS FINANCE B.V.

and

BRITISH AMERICAN TOBACCO p.l.c.

and

THE LAW DEBENTURE TRUST CORPORATION p.l.c.

further modifying and restating the Trust Deed dated 6 July 1998 (as previously modified and restated) relating to the U.S.\$3,000,000,000 (now £25,000,000,000) Euro Medium Term Note Programme

ALLEN & OVERY

Allen & Overy LLP

BETWEEN:

- (1) **B.A.T. INTERNATIONAL FINANCE p.l.c.** (a public limited company with company number 1060930) whose registered office is at Globe House, 4 Temple Place, London WC2R 2PG (**BATIF**);
- (2) **B.A.T. NETHERLANDS FINANCE B.V.** (a company incorporated with limited liability under the laws of The Netherlands and registered with the Trade Register of the Chamber of Commerce under No. 60533536) whose registered office is at Handelsweg 53A, 1181 ZA Amstelveen, The Netherlands (**BATNF**);
- (3) **B.A.T CAPITAL CORPORATION**, (a company incorporated with limited liability in the State of Delaware, United States of America) whose registered office is at 103 Foulk Road, Suite 120, Wilmington, Delaware 19803, United States of America (**BATCAP** and, together with **BATNF** and **BATIF** each in their capacities as **Issuer**, the **Issuers** and each an **Issuer**);
- (4) **BRITISH AMERICAN TOBACCO p.l.c.** (a public limited company with company number 3407696) whose registered office is at Globe House, 4 Temple Place, London WC2R 2PG (**British American Tobacco** and, together with **BATCAP**, **BATIF** and **BATNF** in their capacities as guarantors of Notes issued by the other Issuers, the **Guarantors** and each a **Guarantor**); and
- (5) **THE LAW DEBENTURE TRUST CORPORATION p.l.c.** (company number 1675231) whose registered office is at Fifth Floor, 100 Wood Street, London EC2V 7EX (the **Trustee**, which expression, where the context so admits, includes any successor or other trustee for the time being of this Thirty-Second Supplemental Trust Deed) as trustee for the Noteholders and the Couponholders.

WHEREAS:

- (A) This Thirty-Second Supplemental Trust Deed is supplemental to:
 - (i) the Trust Deed dated 6 July 1998 (hereinafter called the **Principal Trust Deed**) made between **BATIF**, **BATCAP**, British American Tobacco, B.A.T Finance B.V. (**BATFIN**), B.A.T. Industries p.l.c. (**BAT Industries**), British American Tobacco Mexico, S.A. de C.V. (**BAT Mexico**) and the Trustee relating to the U.S.\$3,000,000,000 (now £25,000,000,000) Euro Medium Term Note Programme (the **Programme**) established by **BATIF**, **BATCAP** and originally **BATFIN**;
 - (ii) the First Supplemental Trust Deed dated 22 March 1999 (hereinafter called the **First Supplemental Trust Deed**) made between the same parties as are parties to the Principal Trust Deed and modifying the provisions of the Principal Trust Deed;
 - (iii) the Second Supplemental Trust Deed dated 19 January 2000 (hereinafter called the **Second Supplemental Trust Deed**) made between the same parties as are parties to the Principal Trust deed and **BAT(CI) Finance Limited (BATCIF)** and effecting the substitution of **BATCIF** in place of **BATIF** as principal debtor in respect of certain Notes issued by **BATIF** pursuant to the Programme;
 - (iv) the Third Supplemental Trust Deed dated 15 August 2000 (hereinafter called the **Third Supplemental Trust Deed**) made between the same parties as are parties to the Principal Trust Deed and **BATCIF** and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated);

- (v) the Fourth Supplemental Trust Deed dated 3 July 2002 (hereinafter called the **Fourth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATNF), BATFIN and BATCIF and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated);
- (vi) the Fifth Supplemental Trust Deed dated 16 April 2003 (hereinafter called the **Fifth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATNF) and BATFIN and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated);
- (vii) the Sixth Supplemental Trust Deed dated 26 May 2005 (hereinafter called the **Sixth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATNF) and effecting the substitution of British American Tobacco Holdings (The Netherlands) B.V. (**BATHTN**) in place of BATIF as principal debtor in respect of the Series 25 EUR 1,000,000,000 Floating Rate Guaranteed Notes due 2006 issued by BATIF pursuant to the Programme;
- (viii) the Seventh Supplemental Trust Deed dated 21 June 2005 (hereinafter called the **Seventh Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATNF), BATHTN, BATFIN, BAT Industries and BAT Mexico and effecting the substitution of BATHTN in place of BATIF as principal debtor in respect of the Series 1 DM 1,000,000,000 5.375 per cent Guaranteed Notes due 2006 issued by BATIF pursuant to the Programme;
- (ix) the Eighth Supplemental Trust Deed dated 30 November 2005 (hereinafter called the **Eighth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATNF) and BATHTN and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated);
- (x) the Ninth Supplemental Trust Deed dated 30 November 2007 (hereinafter called the **Ninth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATNF) and BATHTN and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated);
- (xi) the Tenth Supplemental Trust Deed dated 1 December 2008 (hereinafter called the **Tenth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATNF) and BATHTN and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated);
- (xii) the Eleventh Supplemental Trust Deed dated 4 March 2010 (hereinafter called the **Eleventh Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATNF) and BATHTN and effecting the substitution of BATHTN in place of BATIF as principal debtor in respect of the Series 22 €1,000,000,000 5.125 per cent. Guaranteed Notes due 2013 issued by BATIF pursuant to the Programme;
- (xiii) the Twelfth Supplemental Trust Deed dated 1 December 2010 (hereinafter called the **Twelfth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATNF) and BATHTN and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated);

- (xiv) the Thirteenth Supplemental Trust Deed dated 25 May 2011 (hereinafter called the **Thirteenth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATNF) and BATHTN and substituting BATHTN in place of BATIF as the principal debtor in respect of the Series 36 €650,000,000 4.875 per cent. Guaranteed Notes due 2021 issued by BATIF pursuant to the Programme;
- (xv) the Fourteenth Supplemental Trust Deed dated 9 December 2011 (hereinafter called the **Fourteenth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATNF and BATCAP) and BATHTN and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated);
- (xvi) the Fifteenth Supplemental Trust Deed dated 11 December 2012 (hereinafter called the **Fifteenth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATNF and BATCAP) and BATHTN and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated);
- (xvii) the Sixteenth Supplemental Trust Deed dated 12 December 2013 (hereinafter called the **Sixteenth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATNF and BATCAP) and BATHTN and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated);
- (xviii) the Seventeenth Supplemental Trust Deed dated 16 May 2014 (hereinafter called the **Seventeenth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATCAP) and BATHTN and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated);
- (xix) the Eighteenth Supplemental Trust Deed dated 4 September 2014 (hereinafter called the **Eighteenth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATCAP) and BATHTN and modifying the provisions of the Principal Trust Deed (as previously modified and restated) in respect of the Series 47 CHF 400,000,000 0.625 per cent. Guaranteed Notes due 2021 issued by BATIF pursuant to the Programme;
- (xx) the Nineteenth Supplemental Trust Deed dated 4 September 2014 (hereinafter called the **Nineteenth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATCAP) and BATHTN and modifying the provisions of the Principal Trust Deed (as previously modified and restated) in respect of the Series 48 CHF 250,000,000 1.375 per cent. Guaranteed Notes due 2026 issued by BATIF pursuant to the Programme;
- (xxi) the Twentieth Supplemental Trust Deed dated 4 September 2014 (hereinafter called the **Twentieth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATCAP) and BATHTN and modifying the provisions of the Principal Trust Deed (as previously modified and restated) in respect of the Series 46 CHF 350,000,000 Floating Rate Guaranteed Notes due 2016 issued by BATIF pursuant to the Programme;
- (xxii) the Twenty-First Supplemental Trust Deed dated 8 December 2014 (hereinafter called the **Twenty-First Supplemental Trust Deed**) made between the same parties as are parties to

- this Thirty-Second Supplemental Trust Deed and BATHTN and substituting BATNF in place of BATHTN as the principal debtor in respect of the Series 30 £325,000,000 5.500 per cent. Guaranteed Notes due 2016, the Series 36 €650,000,000 4.875 per cent. Guaranteed Notes due 2021 and the Series 37 €600,000,000 4.000 per cent. Guaranteed Notes due 2020, each issued by BATHTN pursuant to the Programme;
- (xxiii) the Twenty-Second Supplemental Trust Deed dated 8 December 2014 (hereinafter called the **Twenty-Second Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATCAP) and BATHTN and substituting BATNF in place of BATHTN as the principal debtor in respect of the Series 40 €750,000,000 2.375 per cent. Guaranteed Notes due 2023 and the Series 44 €600,000,000 3.125 per cent. Guaranteed Notes due 2029, each issued by BATHTN pursuant to the Programme;
- (xxiv) the Twenty-Third Supplemental Trust Deed dated 8 December 2014 (hereinafter called the **Twenty-Third Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed and BATHTN and effecting the addition of BATNF as a guarantor in respect of the Series 26 £500,000,000 6.375 per cent. Guaranteed Notes due 2019, the Series 32 €1,250,000,000 5.375 per cent. Guaranteed Notes due 2017, the Series 33 £500,000,000 7.250 per cent. Guaranteed Notes due 2024, the Series 34 €1,250,000,000 5.875 per cent. Guaranteed Notes due 2015, the Series 35 £250,000,000 6.000 per cent. Guaranteed Notes due 2022, the Series 37 £500,000,000 6.000 per cent. Guaranteed Notes due 2034, the Series 38 £275,000,000 5.750 per cent. Guaranteed Notes due 2040 and the Series 39 €600,000,000 3.625 per cent. Guaranteed Notes due 2021, each issued by BATIF pursuant to the Programme;
- (xxv) the Twenty-Fourth Supplemental Trust Deed dated 8 December 2014 (hereinafter called the **Twenty-Fourth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATCAP) and BATHTN and effecting the addition of BATNF as a guarantor in respect of the Series 41 US\$300,000,000 1.125 per cent. Guaranteed Notes due 2016, the Series 42 €650,000,000 2.750 per cent. Guaranteed Notes due 2025, the Series 43 £650,000,000 4.000 per cent. Guaranteed Notes due 2026, and the Series 45 €400,000,000 Floating Rate Guaranteed Notes due 2018, each issued by BATIF pursuant to the Programme;
- (xxvi) the Twenty-Fifth Supplemental Trust Deed dated 12 April 2016 (hereinafter called the **Twenty-Fifth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed and BATHTN and substituting BATIF in place of BATNF as the principal debtor in respect of the Series 36 €650,000,000 4.875 per cent. Guaranteed Notes due 2021 and the Series 37 €600,000,000 4.000 per cent. Guaranteed Notes due 2020, each issued by BATNF pursuant to the Programme;
- (xxvii) the Twenty-Sixth Supplemental Trust Deed dated 12 April 2016 (hereinafter called the **Twenty-Sixth Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATCAP) and BATHTN substituting BATIF in place of BATNF as the principal debtor in respect of the Series 40 €750,000,000 2.375 per cent. Guaranteed Notes due 2023 and the Series 44 €600,000,000 3.125 per cent. Guaranteed Notes due 2029, each issued by BATNF pursuant to the Programme;
- (xxviii) the Twenty-Seventh Supplemental Trust Deed dated 20 May 2016 (hereinafter called the **Twenty-Seventh Supplemental Trust Deed**) made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed (other than BATCAP) and BATHTN and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated); and

- (xxix) the Twenty-Eighth Supplemental Trust Deed dated 31 May 2017 (hereinafter called the **Twenty-Eighth Supplemental Trust Deed** made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed and BATHTN and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated);
- (xxx) the Twenty-Ninth Supplemental Trust Deed dated 12 February 2018 (hereinafter called the **Twenty-Ninth Supplemental Trust Deed** made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed and BATHTN and effecting the addition of BATCAP as a guarantor in respect of the Series 40 €750,000,000 2.375 per cent. Guaranteed Notes due 2023, the Series 42 €650,000,000 2.750 per cent. Guaranteed Notes due 2025, the Series 43 £650,000,000 4.000 per cent. Guaranteed Notes due 2026, the Series 44 €600,000,000 3.125 per cent. Guaranteed Notes due 2029, the Series 45 €400,000,000 Floating Rate Guaranteed Notes due 2018, the Series 47 CHF400,000,000 0.625 per cent. Guaranteed Notes due 2021, the Series 48 CHF250,000,000 1.375 per cent. Guaranteed Notes due 2026, the Series 49 €800,000,000 0.375 per cent. Guaranteed Notes due 2019, the Series 50 €800,000,000 0.875 per cent. Guaranteed Notes due 2023, the Series 51 €800,000,000 1.250 per cent. Guaranteed Notes due 2027, the Series 52 €600,000,000 2.000 per cent. Guaranteed Notes due 2045, the Series 53 €600,000,000 1.000 per cent. Guaranteed Notes due 2022, the Series 54 £350,000,000 4.000 per cent. Guaranteed Notes due 2055, the Series 55 £500,000,000 1.750 per cent. Guaranteed Notes due 2021, the Series 56 £650,000,000 2.250 per cent. Guaranteed Notes due 2052, and the Series 57 US\$650,000,000 1.625 per cent. Guaranteed Notes due 2019, each issued by BATIF pursuant to the Programme;
- (xxxii) the Thirtieth Supplemental Trust Deed dated 25 May 2018 (hereinafter called the **Thirtieth Supplemental Trust Deed** made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed and BATHTN and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated); and
- (xxxiii) the Thirty-First Supplemental Trust Deed dated 1 May 2019 (hereinafter called the **Thirty-First Supplemental Trust Deed** made between the same parties as are parties to this Thirty-Second Supplemental Trust Deed and modifying and restating the provisions of the Principal Trust Deed (as previously modified and restated) (and together with the Principal Trust Deed, the First Supplemental Trust Deed, the Second Supplemental Trust Deed, the Third Supplemental Trust Deed, the Fourth Supplemental Trust Deed, the Fifth Supplemental Trust Deed, the Sixth Supplemental Trust Deed, the Seventh Supplemental Trust Deed, the Eighth Supplemental Trust Deed, the Ninth Supplemental Trust Deed, the Tenth Supplemental Trust Deed, the Eleventh Supplemental Trust Deed, the Twelfth Supplemental Trust Deed, the Thirteenth Supplemental Trust Deed, the Fourteenth Supplemental Trust Deed, the Fifteenth Supplemental Trust Deed, the Sixteenth Supplemental Trust Deed, the Seventeenth Supplemental Trust Deed, the Eighteenth Supplemental Trust Deed, the Nineteenth Supplemental Trust Deed, the Twentieth Supplemental Trust Deed, the Twenty-First Supplemental Trust Deed, the Twenty-Second Supplemental Trust Deed, the Twenty-Third Supplemental Trust Deed, the Twenty-Fourth Supplemental Trust Deed, the Twenty-Fifth Supplemental Trust Deed, the Twenty-Sixth Supplemental Trust Deed, the Twenty-Seventh Supplemental Trust Deed, the Twenty-Eighth Supplemental Trust Deed, Twenty-Ninth Supplemental Trust Deed and the Thirtieth Supplemental Trust Deed, the **Subsisting Trust Deeds**).
- (B) On 31 March 2020 the Issuers published a modified and updated Prospectus relating to the Programme (the **Base Prospectus**).

- (C) The Issuers have requested the Trustee to concur in making further modifications to the Principal Trust Deed (as previously modified and restated) to reflect the relevant modifications referred to in Recital (B) above.

NOW THIS THIRTY-SECOND SUPPLEMENTAL TRUST DEED WITNESSETH AND IT IS HEREBY DECLARED as follows:

1. Subject as hereinafter provided and unless there is something in the subject matter or context inconsistent therewith, all words and expressions defined in the Subsisting Trust Deeds shall have the same meanings in this Thirty-Second Supplemental Trust Deed.
2. Save:
 - (a) in relation to all Series of Notes issued during the period up to and including the day last preceding the date of this Thirty-Second Supplemental Trust Deed;
 - (b) in relation to any Notes issued on or after the date of this Thirty-Second Supplemental Trust Deed so as to be consolidated and form a single series with the Notes of any Series issued during the period up to and including the day last preceding the date of this Thirty-Second Supplemental Trust Deed; and
 - (c) for the purpose (where necessary) of construing the provisions of this Thirty-Second Supplemental Trust Deed, with effect on and from the date of this Thirty-Second Supplemental Trust Deed:
 - (i) the Principal Trust Deed (as previously modified, restated and supplemented) is hereby modified and restated in such manner as would result in the Principal Trust Deed being in the form set out in the Schedule hereto; and
 - (ii) the provisions of the Principal Trust Deed (as previously modified, restated and supplemented) insofar as the same still have effect shall cease to have effect and in lieu thereof the provisions of the Principal Trust Deed as so further modified (and being in the form set out in the Schedule hereto) shall have effect.
3. The Subsisting Trust Deeds and this Thirty-Second Supplemental Trust Deed shall henceforth be read and construed together as one trust deed.
4. A memorandum of this Thirty-Second Supplemental Trust Deed shall be endorsed by the Trustee on the original of the Principal Trust Deed and by BATIF, BATNF, BATCAP and the Guarantors on their respective duplicates thereof.
5. This Thirty-Second Supplemental Trust Deed and any non-contractual obligations arising out of or in connection with it are governed by, and shall be construed in accordance with, English law.
6. Each of the parties hereto irrevocably agrees that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Thirty-Second Supplemental Trust Deed (including a dispute relating to any non-contractual obligations arising out of or in connection with it) and that accordingly any suit, action or proceedings arising out of or in connection with these presents (together referred to as **Proceedings**) may be brought in the courts of England, including any Proceedings relating to any non-contractual obligations arising out of or in connection with this Thirty-Second Supplemental Trust Deed. Each of the parties hereto irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim

that any Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agrees that a judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction. Nothing in this Clause shall limit any right to take Proceedings against any of the parties hereto in any other court of competent jurisdiction (outside the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982), nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

7. Each of BATNF and BATCAP irrevocably and unconditionally appoints British American Tobacco at its registered office at Globe House, 4 Temple Place, London WC2R 2PG and in the event of its ceasing so to act will appoint such other person as the Trustee may approve and as BATNF or BATCAP, as the case may be, may nominate in writing to the Trustee for the purpose to accept service of process on its behalf in England in respect of any Proceedings. Each of BATNF and BATCAP:
- (a) agrees to procure that, so long as any Notes issued by it remain liable to prescription, there shall be in force an appointment of such a person approved by the Trustee with an office in London with authority to accept service as aforesaid;
 - (b) agrees that failure by any such person to give notice of such service of process to BATNF or BATCAP, as the case may be, shall not impair the validity of such service or of any judgment based thereon; and
 - (c) agrees that nothing in this Thirty-Second Supplemental Trust Deed shall affect the right to serve process in any other manner permitted by law.
8. This Thirty-Second Supplemental Trust Deed may be executed and delivered in any number of counterparts, all of which, taken together, shall constitute one and the same deed and any party to this Thirty-Second Supplemental Trust Deed may enter into the same by executing and delivering a counterpart.
9. A person who is not a party to this Thirty-Second Supplemental Trust Deed has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Thirty-Second Supplemental Trust Deed, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

IN WITNESS whereof this Thirty-Second Supplemental Trust Deed has been executed as a deed by each of the parties hereto and delivered on the date first stated above.

SCHEDULE 1

FORM OF MODIFIED AND RESTATED PRINCIPAL TRUST DEED

Dated 6 July 1998 and modified and restated on 31 March 2020

TRUST DEED

6 JULY 1998

DATED 6 JULY 1998 AND MODIFIED AND RESTATED ON 31 MARCH 2020

B.A.T. INTERNATIONAL FINANCE p.l.c.

and

B.A.T CAPITAL CORPORATION

and

B.A.T. NETHERLANDS FINANCE B.V.

and

BRITISH AMERICAN TOBACCO p.l.c.

and

THE LAW DEBENTURE TRUST CORPORATION p.l.c.

relating to a

£25,000,000,000

Euro Medium Term Note Programme

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BETWEEN:

- (1) **B.A.T. INTERNATIONAL FINANCE p.l.c.** (company number 1060930) whose registered office is at Globe House, 4 Temple Place, London WC2R 2PG (**BATIF**);
- (2) **B.A.T. NETHERLANDS FINANCE B.V.** (a company incorporated with limited liability under the laws of The Netherlands and registered with the Trade Register of the Chamber of Commerce under No. 60533536) whose registered office is at Handelsweg 53A, 1181 ZA Amstelveen, The Netherlands (**BATNF**);
- (3) **B.A.T CAPITAL CORPORATION**, (a company incorporated with limited liability in the State of Delaware, United States of America) whose registered office is at 103 Foulk Road, Suite 120, Wilmington, Delaware 19803, United States of America (**BATCAP** and, together with **BATIF** and **BATNF** each in their capacities as **Issuer**, the **Issuers** and each an **Issuer**);
- (4) **BRITISH AMERICAN TOBACCO p.l.c.** (company number 3407696) whose registered office is at Globe House, as aforesaid (**British American Tobacco** and, together with, in their capacities as guarantors of Notes issued by the other Issuers, **BATIF**, **BATCAP** and **BATNF**, the **Guarantors** and each a **Guarantor**); and
- (5) **THE LAW DEBENTURE TRUST CORPORATION p.l.c.** (company number 1675231) whose registered office is at Fifth Floor, 100 Wood Street, London EC2V 7EX (the **Trustee**, which expression, where the context so admits, includes any successor or other trustee for the time being of this Trust Deed) as trustee for the Noteholders and the Couponholders (each as defined below).

WHEREAS:

- (A) By a resolution of the Board of Directors of **BATIF** passed on 30 June 1998 **BATIF** has resolved to establish a Euro Medium Term Note Programme pursuant to which it may from time to time issue Notes as set out herein. By a resolution of the Board of Directors of **BATNF** passed on 12 May 2014, **BATNF** has resolved to accede to the Programme as an issuer. By a resolution of the Board of Directors of **BATCAP** passed on 20 April 2017, **BATCAP** has resolved to accede to the Programme as an issuer. By resolutions of the Boards of Directors of **BATIF** passed on 23 February 1999, 23 May 2000, 24 July 2000, 24 June 2002, 14 April 2003, 25 February 2004, 12 April 2005, 21 November 2005, 23 November 2006, 23 November 2007, 21 November 2008, 25 November 2009, 19 November 2010, 23 November 2011, 30 November 2012, 29 November 2013, 15 May 2014, 24 April 2015, 6 May 2016, 27 April 2017, 10 May 2018, 24 April 2019 and 4 March 2020 and of **BATNF** passed on 28 April 2015, 11 May 2016, 22 May 2017, 15 May 2018, 29 April 2019 and 26 February 2020 and of **BATCAP** passed on 11 May 2018, 25 April 2019 and 26 March 2020, the Issuers have resolved to update the Programme. Notes up to a maximum nominal amount (calculated in accordance with Clause 3.5 of the Programme Agreement (as defined below)) from time to time outstanding of £25,000,000,000 (subject to increase as provided in the Programme Agreement) (the **Programme Limit**) may be issued pursuant to the said Programme.
- (B) By resolutions of the Board of Directors of British American Tobacco passed on 18 June 1998, 5 March 1999, 24 May 2000, 28 July 2000, 14 April 2003, 20 February 2004, 29 October 2007, 25 February 2014 and 25 April 2017 of a Committee of the Board of Directors passed on 1 July 1998 and of the Executive Committee of the Board of Directors passed on 24 April 2002 and 24 June 2002 and of the Transactions Committee of the Board of Directors on 11 April 2005, 21 November 2005, 16 November 2006, 20 November 2007, 21 November 2008, 17 November 2009, 19 November 2010, 23 November 2011, 30 November 2012, 29 November 2013, 12 May 2014,

23 April 2015, 3 May 2016, 10 May 2018, 23 April 2019 and 3 February 2020 and of the Board of Directors of BATIF passed on 30 June 1998, 23 February 1999, 23 May 2000, 24 July 2000, 24 June 2002, 14 April 2003, 25 February 2004, 12 April 2005, 21 November 2005, 23 November 2006, 23 November 2007, 21 November 2008, 25 November 2009, 19 November 2010, 23 November 2011, 30 November 2012, 29 November 2013, 15 May 2014, 24 April 2015, 6 May 2016, 27 April 2017, 10 May 2018, 24 April 2019 and 4 March 2020 and of the Board of Directors of BATNF passed on 12 May 2014, 28 April 2015, 11 May 2016, 22 May 2017, 15 May 2018, 29 April 2019 and 26 February 2020 and of the Board of Directors of BATCAP passed on 20 April 2017, 11 May 2018, 25 April 2019 and 26 March 2020, the Guarantors have resolved to guarantee Notes issued under the said Programme and to enter into certain covenants as set out in this Trust Deed.

- (C) The Trustee has agreed to act as trustee of this Trust Deed for the benefit of the Noteholders and the Couponholders upon and subject to the terms and conditions of this Trust Deed.
- (D) References hereafter in this Trust Deed to the Issuer and the Guarantors are to the Issuer and the Guarantors specified in the applicable Final Terms (as defined below) in relation to a particular Series of the Notes.

THIS DEED WITNESSES AND IT IS DECLARED as follows:

1. INTERPRETATION

1.1 Definitions

The following expressions have the following meanings:

Agency Agreement means the agreement dated 6 July 1998, as amended and/or supplemented and/or restated from time to time, appointing the Agent and the other Paying Agents in relation to all or any Series of the Notes and any other agreement for the time being in force appointing another Agent or further or other Paying Agents in relation to all or any Series of the Notes, or in connection with their duties, the terms of which have previously been approved in writing by the Trustee, together with any agreement for the time being in force amending or modifying with the prior written approval of the Trustee any of the aforesaid agreements;

Agent means, in relation to all or any Series of the Notes, Citibank, N.A., London Branch at its office at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, England, or, if applicable, any Successor agent in relation thereto;

Auditors means the auditors for the time being of the relevant Issuer or a Guarantor (as the case may be), or, if they are unable or unwilling to carry out any action requested of them pursuant to the provisions of this Trust Deed, such other firm of accountants as may be selected for the purpose by the relevant Issuer or the relevant Guarantor (as the case may be) which, for the avoidance of doubt in the case of the auditors of the relevant Issuer so being unable or unwilling, may be the auditors of the ultimate Holding Company of the Group, in either such case, as approved by the Trustee (such approval not to be unreasonably withheld) and, failing such selection by the relevant Issuer or the relevant Guarantor (as the case may be) as may be nominated in writing by the Trustee for the purpose;

Borrowed Moneys Indebtedness has the meaning ascribed thereto in Condition 9(a);

Calculation Agent means, in relation to all or any Series of the Notes, the person appointed as such from time to time pursuant to the provisions of the Agency Agreement or, if applicable, any Successor calculation agent in relation thereto;

CGN means a Global Note in respect of which the applicable Final Terms indicates is not in New Global Note form;

Clearstream, Luxembourg means Clearstream Banking SA;

Conditions means, in relation to the Notes of any Series, the terms and conditions endorsed on or incorporated by reference into the Note or Notes constituting such Series, such terms and conditions being in or substantially in the form set out in Schedule 1 or in such other form, having regard to the terms of issue of the Notes of the relevant Series, as may be agreed between the relevant Issuer, the relevant Guarantor(s), the Agent, the Trustee and the relevant Dealer(s) as supplemented by the Final Terms applicable to the Notes of the relevant Series, in each case as from time to time modified in accordance with the provisions of this Trust Deed;

Coupon means an interest coupon appertaining to a Definitive Note (other than a Zero Coupon Note), such coupon being:

- (a) if appertaining to a Fixed Rate Note, in the form or substantially in the form set out in Part 3 (Part A) of Schedule 2 or in such other form, having regard to the terms of issue of the Notes of the relevant Series, as may be agreed between the relevant Issuer, the relevant Guarantor(s), the Agent, the Trustee and the relevant Dealer(s); or
- (b) if appertaining to a Floating Rate Note, in the form or substantially in the form set out in Part 3 (Part B) of Schedule 2 or in such other form, having regard to the terms of issue of the Notes of the relevant Series, as may be agreed between the relevant Issuer, the relevant Guarantor(s), the Agent, the Trustee and the relevant Dealer(s),

and includes, where applicable, the Talon(s) appertaining thereto and any replacements for Coupons and Talons issued pursuant to Condition 10;

Couponholders means the several persons who are for the time being holders of the Coupons and includes, where applicable, the Talonholders;

Dealers means Banca IMI S.p.A., Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, SA, Bank of China Limited, London Branch, Barclays Bank PLC, Citigroup Global Markets Europe AG, BofA Securities Europe SA, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank plc, Lloyds Bank Corporate Markets plc, Merrill Lynch International, Mizuho International plc, Mizuho Securities Europe GmbH, NatWest Markets Plc, Standard Chartered Bank, SMBC Nikko Capital Markets Europe GmbH, SMBC Nikko Capital Markets Limited, Société Générale, UniCredit Bank AG and Wells Fargo Securities International Limited and any other entity appointed as a Dealer and notice of whose appointment has been given to the Agent and the Trustee in accordance with the provisions of the Programme Agreement but excluding any entity whose appointment has been terminated in accordance with the provisions of the Programme Agreement and notice of which termination has been given to the Agent and the Trustee in accordance with the provisions of the Programme Agreement and references to a **relevant Dealer** or **relevant Dealer(s)** mean, in relation to any Tranche or Series of Notes, the Dealer or Dealers with whom the relevant Issuer has agreed the issue of the Notes of such Tranche or Series and **Dealer** means any one of them;

Definitive Note means a Note in definitive form issued or, as the case may require, to be issued by the relevant Issuer in accordance with the provisions of the Programme Agreement or any other agreement between the relevant Issuer and the relevant Dealer(s), the Agency Agreement and this Trust Deed in exchange for a Global Note (all as indicated in the applicable Final Terms), such Note in definitive form being in the form or substantially in the form set out in Part 2 of Schedule 2 with such modifications (if any) as may be agreed between the relevant Issuer, the relevant Guarantor(s),

the Agent, the Trustee and the relevant Dealer(s) and having the Conditions endorsed thereon or, if permitted by the relevant Stock Exchange, incorporating the Conditions by reference (where applicable to this Trust Deed) as indicated in the applicable Final Terms and having the relevant information supplementing, replacing or modifying the Conditions appearing in the applicable Final Terms endorsed thereon or attached thereto and (except in the case of a Zero Coupon Note) having Coupons and, where appropriate, Talons attached thereto on issue;

Distribution Compliance Period has the meaning given to such term in Regulation S under the Securities Act;

Early Redemption Amount has the meaning ascribed thereto in Condition 6(f);

Euroclear means Euroclear Bank SA/NV;

Eurosystem means the central banking system for the euro;

Event of Default means an event described in Condition 9(a) and which, if so required by that Condition, has been certified by the Trustee to be, in its opinion, materially prejudicial to the interest of the holders of the Notes of the relevant Series;

Extraordinary Resolution has the meaning set out in Schedule 3;

Final Terms has the meaning set out in the Programme Agreement;

Fixed Rate Note means a Note on which interest is calculated at a fixed rate payable in arrear on a fixed date or fixed dates in each year and on redemption or on such other dates as may be agreed between the relevant Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms);

Floating Rate Note means a Note on which interest is calculated at a floating rate payable one-, two-, three-, six- or twelve-monthly or in respect of such other period or on such date(s) as may be agreed between the relevant Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms);

FSMA means the Financial Services and Markets Act 2000 of the United Kingdom;

Global Note means a global note in the form or substantially in the form set out in Part 1 of Schedule 2 with such modifications (if any) as may be agreed between the relevant Issuer, the Agent, the Trustee and the relevant Dealer(s), together with the copy of the applicable Final Terms annexed thereto, comprising some or all of the Notes of the same Series, issued by the relevant Issuer pursuant to the Programme Agreement or any other agreement between the relevant Issuer and the relevant Dealer(s), the Agency Agreement and this Trust Deed on issue;

Group has the meaning ascribed thereto in Condition 9(a);

Guarantee means the guarantee and indemnity of the Guarantors in Clause 5;

Holding Company means a holding company within the meaning of Section 1159 of the Companies Act 2006;

Interest Commencement Date means, in the case of interest-bearing Notes, the date specified in the applicable Final Terms from (and including) which such Notes bear interest, which may or may not be the Issue Date;

Interest Payment Date means, in relation to any Floating Rate Note, either:

- (a) the date which falls the number of months or other period specified as the **Specified Period** in the applicable Final Terms after the preceding Interest Payment Date or the Interest Commencement Date (in the case of the first Interest Payment Date); or
- (b) such date or dates as are indicated in the applicable Final Terms;

Issue Date means, in respect of any Note, the date of issue and purchase of such Note pursuant to and in accordance with the Programme Agreement or any other agreement between the relevant Issuer and the relevant Dealer(s), being in the case of any Definitive Note the same date as the date of issue of the Global Note which initially represented such Note;

Issue Price means the price, generally expressed as a percentage of the nominal amount of the Notes, at which the Notes will be issued;

London Business Day has the meaning set out in Condition 4(b)(v);

London Stock Exchange means the London Stock Exchange plc or such other body to which its functions and business have been transferred;

Maturity Date means the date on which a Note is expressed to be redeemable;

month means calendar month;

NGN means a Global Note in respect of which the applicable Final Terms indicates is in New Global Note form;

Note means a note issued pursuant to the Programme and denominated in such currency or currencies as may be agreed between the relevant Issuer and the relevant Dealer(s) which:

- (a) has such maturity as may be agreed between the relevant Issuer and the relevant Dealer(s), subject to such minimum or maximum maturity as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Issuer or the relevant currency; and
- (b) has such denomination as may be agreed between the relevant Issuer and the relevant Dealer(s), subject to such minimum denomination as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant currency, which will be at least €1,000 (or its equivalent in other currencies) in any event, provided that (i) in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area (**EEA**) or offered to the public in a Member State of the EEA in circumstances which require the publication of a prospectus under the Prospectus Regulation (2017/1129), the minimum denomination shall be €100,000 (or the equivalent of such amounts in another currency as at the date of issue of the Notes); and (ii) unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) in respect of which the issue proceeds are received by the relevant Issuer in the United Kingdom and which have a maturity of less than one year will have a minimum redemption value of £100,000 (or its equivalent in other currencies),

issued or to be issued by the relevant Issuer pursuant to the Programme Agreement or any other agreement between the relevant Issuer and the relevant Dealer(s), the Agency Agreement and this Trust Deed and which shall initially be represented by, and comprised in, a Global Note which may (in accordance with the terms of such Global Note) be exchanged for Definitive Notes (as indicated in the applicable Final Terms) and includes any replacements for a Note issued pursuant to Condition 10;

Noteholders means the several persons who are for the time being bearers of outstanding Notes save that, in respect of the Notes of any Series, for so long as such Notes or any part thereof are represented by a Global Note deposited with a common depositary (in the case of a CGN) or common safekeeper (in the case of a NGN) for Euroclear and Clearstream, Luxembourg, each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (other than Clearstream, Luxembourg, if Clearstream, Luxembourg shall be an accountholder of Euroclear and Euroclear, if Euroclear shall be an accountholder of Clearstream, Luxembourg) as the holder of a particular nominal amount of the Notes of such Series shall be deemed to be the holder of such nominal amount of such Notes (and the holder of the relevant Global Note shall be deemed not to be the holder) for all purposes of this Trust Deed other than with respect to the payment of principal or interest on such nominal amount of such Notes, the rights to which shall be vested, as against the relevant Issuer and the Guarantors, solely in such common depositary (in the case of a CGN) or common safekeeper (in the case of a NGN) and for which purpose such common depositary (in the case of a CGN) or common safekeeper (in the case of a NGN) shall be deemed to be the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the provisions of this Trust Deed and the expressions **Noteholder**, **holder** and **holder of Notes** and related expressions shall be construed accordingly;

notice means, in respect of a notice to be given to Noteholders, a notice validly given pursuant to Condition 13;

Official List has the meaning ascribed thereto in Section 103 of the FSMA;

outstanding means, in relation to the Notes of all or any Series, all the Notes of such Series issued other than:

- (a) those Notes which have been redeemed pursuant to this Trust Deed;
- (b) those Notes in respect of which the date for redemption in accordance with the Conditions has occurred and the redemption moneys (including all interest payable thereon) have been duly paid to the Trustee or to the Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relative Noteholders in accordance with Condition 13) and remain available for payment against presentation of the relevant Notes and/or Coupons;
- (c) those Notes which have been purchased and cancelled in accordance with Conditions 6(g) and 6(h);
- (d) those Notes which have become void under Condition 8;
- (e) those mutilated or defaced Notes which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 10;
- (f) (for the purpose only of ascertaining the nominal amount of the Notes outstanding and without prejudice to the status for any other purpose of the relevant Notes) those Notes which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 10; and
- (g) any Global Note to the extent that it shall have been exchanged for Definitive Notes in each case pursuant to its provisions, the provisions of this Trust Deed and the Agency Agreement;

PROVIDED THAT for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the holders of the Notes of any Series;
- (ii) the determination of how many and which Notes of any Series are for the time being outstanding for the purposes of Conditions 9(a), 9(b) and 14 and Schedule 3;
- (iii) any discretion, power or authority (whether contained in this Trust Deed or vested by operation of law) which the Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the holders of the Notes of any Series; and
- (iv) the determination by the Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the holders of the Notes of any Series,

those Notes of the relevant Series (if any) which are for the time being held by or on behalf of the relevant Issuer, the Guarantors or any other subsidiary of the relevant Issuer or the Guarantors, in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding;

Paying Agents means, in relation to all or any Series of the Notes, the several institutions (including, where the context permits, the Agent) at their respective specified offices initially appointed as paying agents in relation to such Notes pursuant to the Agency Agreement and/or, if applicable, any Successor paying agents in relation thereto;

Potential Event of Default means an event or circumstance which would with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 9(a) become an Event of Default;

Programme means the Euro Medium Term Note Programme established by, or otherwise contemplated in, the Programme Agreement;

Programme Agreement means the agreement of even date herewith between the parties hereto (other than the Trustee) and the Dealers named therein concerning the purchase of Notes to be issued pursuant to the Programme as amended and/or supplemented and/or restated from time to time;

Put Notice means a notice in the form set out in Schedule 2 to the Agency Agreement;

Reference Banks means the several banks initially appointed as reference banks in relation to the Notes of any relevant Series and/or, if applicable, any Successor reference banks in relation thereto such banks being, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Agent or as specified in the applicable Final Terms;

Relevant Date has the meaning ascribed thereto in Condition 7(f);

repay, redeem and pay shall each include both the others and cognate expressions shall be construed accordingly;

Series means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices and the expressions **Notes of the relevant Series, holders of Notes of the relevant Series** and related expressions shall be construed accordingly;

specified office means, in relation to a Paying Agent, the office identified with its name at the end of the Conditions or any other office approved by the Trustee and notified to the Noteholders pursuant to Clause 8(j);

Specified Time means 11.00 a.m. (London time, in the case of a determination of LIBOR, or Brussels time, in the case of a determination of EURIBOR).

Stock Exchange means, in relation to the Notes of any Series, the stock exchange or exchanges on which such Notes may from time to time be listed, and references in this Trust Deed to the **relevant Stock Exchange** shall, in relation to the Notes of any Series, be references to the Stock Exchange on which such Notes are, from time to time, or are intended to be, listed;

subsidiary means a subsidiary within the meaning of Section 1159 of the Companies Act 2006 of Great Britain;

Successor means, in relation to the Agent, any other Paying Agent, the Reference Banks and the Calculation Agent, any successor to any one or more of them in relation to the Notes which shall become such pursuant to the provisions of this Trust Deed and/or the Agency Agreement (as the case may be) and/or such other or further agent, paying agent, reference banks or calculation agent (as the case may be) in relation to the Notes as may (with the prior approval of, and on terms previously approved by, the Trustee in writing) from time to time be appointed as such, and/or, if applicable, such other or further specified offices (in the former case being within the same city as those for which they are substituted) as may from time to time be nominated, in each case by the relevant Issuer and the Guarantors and (except in the case of the initial appointments and specified offices made under and specified in the Conditions and/or the Agency Agreement, as the case may be) notice of whose appointment or, as the case may be, nomination has been given to the Noteholders pursuant to Clause 8(j);

successor in business means a company which has acquired as a going concern all or substantially all of the undertaking, assets and liabilities of the relevant Issuer or any Guarantor, as the case may be;

Talonholders means the several persons who are for the time being holders of the Talons;

Talons means the talons (if any) appertaining to, and exchangeable in accordance with the provisions therein contained for further Coupons appertaining to, the Definitive Notes (other than the Zero Coupon Notes), such talons being in the form or substantially in the form set out in Part 4 of Schedule 2 or in such other form as may be agreed between the relevant Issuer, the Agent, the Trustee and the relevant Dealer(s) and includes any replacements for Talons issued pursuant to Condition 10;

this Deed means this trust deed and the Schedules (or, in respect of any reference to the provisions thereof, the same as may be from time to time modified in accordance with the provisions hereof);

this Trust Deed means this Deed and any trust deed supplemental hereto and the schedules (if any) thereto and the Notes, the Coupons, the Talons, the Conditions and, unless the context otherwise requires, the Final Terms, all as from time to time modified in accordance with the provisions herein or therein contained;

Tranche means all Notes which are identical in all respects (including as to listing);

trust corporation means a trust corporation (as defined in the Law of Property Act 1925) or a corporation entitled to act as a trustee pursuant to applicable foreign legislation relating to trustees;

Trustee Acts means the Trustee Act 1925 and the Trustee Act 2000; and

Zero Coupon Note means a Note on which no interest is payable.

1.2 Construction of Certain References

- (a) All references in this Trust Deed to costs, charges, remuneration or expenses include any value added, turnover or similar tax charged in respect thereof.
- (b) All references in this Trust Deed to principal and/or principal amount and/or interest in respect of the Notes or to any moneys payable by the relevant Issuer and/or the Guarantors under this Trust Deed shall, unless the context otherwise requires, be construed in accordance with Condition 5(f).
- (c) All references in this Trust Deed to any statute or any provision of any statute shall be deemed to be references to that statute as from time to time modified, extended, amended, superseded or re-enacted or to any statutory instrument, order or regulation made thereunder or under any such modification or re-enactment.
- (d) All references in this Trust Deed to any action, remedy or method of proceeding for the enforcement of the rights of creditors shall be deemed to include, in respect of any jurisdiction other than England, references to such action, remedy or method of proceeding for the enforcement of the rights of creditors available or appropriate in such jurisdiction as shall most nearly approximate to such action, remedy or method of proceeding described or referred to in this Trust Deed.
- (e) All references in this Trust Deed to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits (but not in the case of any NGN), be deemed to include references to any additional or alternative clearing system as is approved by the relevant Issuer, the Agent and the Trustee. In the case of NGNs, such alternative clearing system must also be authorised to hold such Notes as eligible collateral for Eurosystem monetary policy and intra-day credit operations.
- (f) All references in this Trust Deed to the **relevant currency** shall be construed as references to the currency in which payments in respect of the Notes and/or Coupons of the relevant Series are to be made as indicated in the applicable Final Terms.
- (g) All references in this Trust Deed to a Directive include any relevant implementing measure of each Member State of the European Economic Area which has implemented such Directive.
- (h) As used herein, in relation to any Notes which have a **listing** or are **listed** (i) on the London Stock Exchange, **listing** and **listed** shall be construed to mean that such Notes have been admitted to the Official List and admitted to trading on the London Stock Exchange's Regulated Market and (ii) on any other Stock Exchange within the European Economic Area, **listing** and **listed** shall be construed to mean that Notes have been admitted to trading on a market within that jurisdiction which is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on Markets in Financial Instruments. All references in this Trust Deed to **listing** and **listed** shall include references to **quotation** and **quoted** respectively.
- (i) All references in this Trust Deed to the **records** of Euroclear and Clearstream, Luxembourg shall be to the records that each of Euroclear and Clearstream, Luxembourg holds for its customers which reflect the amount of such customers interest in the Notes.

- (j) All references in these presents involving compliance by the Trustee with a test of reasonableness shall be deemed to include a reference to a requirement that such reasonableness shall be determined by reference solely to the interest of the Noteholders.
- (k) Unless stated otherwise, references herein to the European Economic Area or the EEA include the United Kingdom, and Member State is to be interpreted accordingly.

1.3 Headings

Headings shall be ignored in construing this Trust Deed.

1.4 Schedules

The Schedules are part of this Trust Deed and have effect accordingly.

1.5 Defined terms

Words and expressions defined in this Trust Deed or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used herein unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and this Trust Deed, this Trust Deed shall prevail and, in the event of inconsistency between the Agency Agreement or this Trust Deed and the applicable Final Terms, the applicable Final Terms shall prevail.

2. AMOUNT AND ISSUE OF THE NOTES

2.1 Amount of the Notes, Final Terms and Legal Opinions

The Notes will be issued in Series in an aggregate nominal amount from time to time outstanding not exceeding the Programme Limit from time to time and for the purpose of determining such aggregate nominal amount Clause 3.5 of the Programme Agreement shall apply.

By not later than 3.00 p.m. (London time) on the London Business Day preceding each proposed Issue Date, the relevant Issuer shall deliver or cause to be delivered to the Trustee a copy of the applicable Final Terms and shall notify the Trustee in writing without delay of the relevant Issue Date and the nominal amount of the Notes to be issued. Upon the issue of the relevant Notes, such Notes shall become constituted by this Trust Deed without further formality.

Before the first issue of Notes occurring after each anniversary of this Deed and on such other occasions as the Trustee acting reasonably so requests (on the basis that the Trustee considers it necessary in view of a change (or proposed change) in applicable law or regulations (or the interpretation or application thereof) affecting the relevant Issuer or, as the case may be, the Guarantors, this Trust Deed, the Programme Agreement or the Agency Agreement, or the Trustee has other grounds), the relevant Issuer or, as the case may be, the Guarantors will procure that further legal opinion(s) (relating, if applicable, to any such change or proposed change (or interpretation or application)) in such form and with such content as the Trustee may require from the legal advisers specified in the Programme Agreement or such other legal advisers as the Trustee may require is/are delivered to the Trustee. Whenever such a request is made with respect to any Notes to be issued, the receipt of such opinion in a form satisfactory to the Trustee shall be a further condition precedent to the issue of those Notes.

2.2 Covenant to repay principal and to pay interest

The relevant Issuer covenants with the Trustee that it will, as and when the Notes of any Series or any of them becomes due to be redeemed in accordance with the Conditions, unconditionally pay or procure to be paid to or to the order of the Trustee in the relevant currency in immediately available funds the principal amount in respect of the Notes of such Series becoming due for redemption on that date and (except in the case of Zero Coupon Notes) shall (subject to the provisions of the Conditions) in the meantime and until redemption in full of the Notes of such Series (both before and after any judgment or other order of a court of competent jurisdiction) unconditionally pay or procure to be paid to or to the order of the Trustee as aforesaid interest (which shall accrue from day to day) on the nominal amount of the Notes outstanding of such Series at rates and/or in amounts calculated from time to time in accordance with, or specified in, and on the dates provided for in, the Conditions (subject to Clause 2.4) PROVIDED THAT:

- (a) every payment of principal or interest or other sum due in respect of the Notes made to or to the order of the Agent in the manner provided in the Agency Agreement shall be in satisfaction *pro tanto* of the relative covenant by the relevant Issuer in this Clause contained in relation to the Notes of such Series, except to the extent that there is a default in the subsequent payment thereof in accordance with the Conditions to the relevant Noteholders or Couponholders (as the case may be);
- (b) in the case of any payment of principal made to the Trustee or the Agent after the due date or on or after accelerated maturity following an Event of Default, interest shall (subject, where applicable, as provided in the Conditions) continue to accrue on the nominal amount of the relevant Notes (except in the case of Zero Coupon Notes to which the provisions of Condition 6(i) shall apply) (both before and after any judgment or other order of a court of competent jurisdiction) at the rates aforesaid (or, if higher, the rate of interest on judgment debts for the time being provided by English law) up to and including the date which the Trustee determines to be the date on and after which payment is to be made in respect thereof as stated in a notice given to the holders of such Notes (such date to be not later than seven days after the day on which the whole of such principal amount, together with an amount equal to the interest which has accrued and is to accrue pursuant to this proviso up to and including that date, has been received by the Trustee or the Agent); and
- (c) in any case where payment of the whole or any part of the principal amount of any Note is improperly withheld or refused upon due presentation thereof (other than in circumstances contemplated by (b) above), interest shall accrue on the nominal amount of such Note (except in the case of Zero Coupon Notes to which the provisions of Condition 6(i) shall apply) payment of which has been so withheld or refused (both before and after any judgment or other order of a court of competent jurisdiction) at the rates aforesaid (or, if higher, the rate of interest on judgment debts for the time being provided by English law) from the date of such withholding or refusal until the date on which, upon further presentation of the relevant Note, payment of the full amount (including interest as aforesaid) in the relevant currency payable in respect of such Note is made or (if earlier) the seventh day after notice is given to the relevant Noteholder(s) (whether individually or in accordance with Condition 13) that the full amount (including interest as aforesaid) in the relevant currency in respect of such Note is available for payment, provided that, upon further presentation thereof being duly made, such payment is made.

The Trustee will hold the benefit of this covenant on trust for the Noteholders and the Couponholders and itself in accordance with this Trust Deed.

2.3 Trustee's requirements regarding Paying Agents

At any time after an Event of Default or a Potential Event of Default shall have occurred, the Trustee may:

- (a) by notice in writing to the relevant Issuer, the Guarantors, the Agent and any other Paying Agent require the Agent and any other Paying Agent, until notified by the Trustee to the contrary, so far as permitted by applicable law:
 - (i) to act as Paying Agents of the Trustee under this Trust Deed and the Notes on the terms of the Agency Agreement (with consequential amendments as necessary and except that the Trustee's liability for the indemnification, remuneration and expenses of the Paying Agents will be limited to the amounts for the time being held by the Trustee in respect of the Notes on the terms of this Trust Deed) and thereafter to hold all Notes and Coupons and all moneys, documents and records held by them in respect of Notes and Coupons to the order of the Trustee; or
 - (ii) to deliver all Notes and Coupons and all moneys, documents and records held by them in respect of the Notes and Coupons to the Trustee or as the Trustee directs in such notice; and
- (b) by notice in writing to the relevant Issuer and the Guarantors require them to make all subsequent payments in respect of the Notes and Coupons to or to the order of the Trustee and not to the Agent.

2.4 Rate and amount of interest

If the Floating Rate Notes of any Series become immediately due and repayable under Condition 9(a), the rate and/or amount of interest payable in respect of them will be calculated at the same intervals as if such Notes had not become due and repayable, the first of which will commence on the expiry of the Interest Period during which the Notes of the relevant Series become so due and repayable *mutatis mutandis* in accordance with the provisions of Condition 4(b) except that the rates of interest need not be published.

2.5 Currency of payments

All payments in respect of, under and in connection with this Trust Deed and the Notes of any Series to the relevant Noteholders and Couponholders shall be made in the relevant currency.

2.6 Further Notes

The relevant Issuer shall be at liberty from time to time (but subject always to the provisions of this Trust Deed) without the consent of the Noteholders or the Couponholders, to create and issue further Notes ranking *pari passu* in all respects (or in all respects save for the date from which interest thereon accrues and the amount of the first payment of interest on such further Notes) and so that the same shall be consolidated and form a single series with the outstanding Notes of a particular Series.

2.7 Separate Series

The Notes of each Series shall form a separate Series of Notes and accordingly, unless for any purpose the Trustee in its absolute discretion shall otherwise determine, the provisions of this Clause and of Clauses 3 to 14 (both inclusive), 15.3, 16, 17 and Schedule 3 shall apply *mutatis mutandis* separately and independently to the Notes of each Series and in such Clauses and Schedule the expressions **Notes**, **Noteholders**, **Coupons**, **Couponholders**, **Talons** and **Talonholders** shall be construed accordingly.

3. FORM OF THE NOTES

3.1 Global Notes

- (a) The Notes of each Tranche will initially be represented by a single Global Note. Each Global Note shall be exchangeable for Definitive Notes together with, where applicable, (except in the case of Zero Coupon Notes) Coupons and, where applicable, Talons attached, in accordance with the provisions of such Global Note.

All Global Notes shall be prepared, completed and delivered to a common depositary (in the case of a CGN) or a common safekeeper (in the case of a NGN) for Euroclear and Clearstream, Luxembourg in accordance with the provisions of the Programme Agreement or (in the case of a CGN) to another appropriate depositary in accordance with any other agreement between the relevant Issuer and the relevant Dealer(s) and, in each case, the Agency Agreement and this Trust Deed.

- (b) Each Global Note shall be printed or typed in the form or substantially in the form set out in Part 1 of Schedule 2 and may be a facsimile. Each Global Note shall have annexed thereto a copy of the applicable Final Terms and shall be signed manually or in facsimile by two directors or one director and the secretary or assistant secretary of the relevant Issuer, and shall be authenticated by or on behalf of the Agent and shall, in the case of a Eurosystem-eligible NGN or in the case of a Non-eligible NGN in respect of which effectuation is to be applicable, be effectuated by the common safekeeper acting on the instructions of the Agent. Each Global Note so executed and authenticated shall be a binding and valid obligation of the Issuer and title thereto shall pass by delivery.

3.2 Definitive Notes

- (a) The Definitive Notes, the Coupons and the Talons shall be to bearer in the respective forms or substantially in the respective forms set out in Part 2, Part 3 and Part 4, respectively, of Schedule 2. The Definitive Notes, the Coupons and the Talons shall be serially numbered and, if listed or quoted, shall be security printed in accordance with the requirements (if any) from time to time of the relevant Stock Exchange and the relevant Conditions shall be incorporated by reference (where applicable to this Trust Deed) into such Definitive Notes if permitted by the relevant Stock Exchange (if any), or, if not so permitted, the Definitive Notes shall be endorsed with or have attached thereto the relevant Conditions, and, in either such case, the Definitive Notes shall have endorsed thereon or attached thereto a copy of the applicable Final Terms (or the relevant provisions thereof). Title to the Definitive Notes, the Coupons and the Talons shall pass by delivery.
- (b) The Definitive Notes shall be signed manually or in facsimile by two directors or one director and the secretary or assistant secretary of the relevant Issuer, and shall be authenticated by or on behalf of the Agent. The Definitive Notes so executed and authenticated, and the Coupons and Talons, upon execution, and upon execution and authentication of the Definitive Notes, shall be binding and valid obligations of the Issuer. The Coupons and the Talons shall be signed manually or in facsimile by two directors or one director and the secretary or assistant secretary of the relevant Issuer. No Definitive Note and none of the Coupons or Talons appertaining to such Definitive Note shall be binding or valid until such Definitive Note shall have been executed and authenticated and the Coupons or Talons shall have been executed, in each case as aforesaid.

3.3 Facsimile Signatures

The relevant Issuer may use the facsimile signature of any person who at the date such signature is affixed to a Note is duly authorised by the relevant Issuer or a director or a secretary of the relevant Issuer notwithstanding that at the time of issue of any of the Notes he may have ceased for any reason to be so authorised or to hold such office.

3.4 Persons to be treated as Noteholders

Except as ordered by a court of competent jurisdiction or as required by law, the relevant Issuer, the Guarantors, the Trustee, the Agent and any other Paying Agent (notwithstanding any notice to the contrary and whether or not it is overdue and notwithstanding any notation of ownership or writing thereon or notice of any previous loss or theft thereof) may (a) for the purpose of making payment thereon or on account thereof deem and treat the bearer of any Global Note, Definitive Note, Coupon or Talon and of all rights thereunder free from all encumbrances, and shall not be required to obtain proof of such ownership or as to the identity of the bearer and (b) for all other purposes deem and treat:

- (a) the bearer of any Definitive Note, Coupon or Talon; and
- (b) each person for the time being shown in the records of Euroclear or Clearstream, Luxembourg as having a particular nominal amount of Notes credited to his securities account,

as the absolute owner thereof free from all encumbrances and shall not be required to obtain proof of such ownership or as to the identity of the bearer of any Global Note, Definitive Note, Coupon or Talon.

4. STAMP DUTIES AND TAXES

4.1 Stamp Duties

The relevant Issuer will pay any stamp, issue, documentary or other taxes and duties, including interest and penalties, payable in the United Kingdom, The Netherlands, Belgium and Luxembourg in respect of the creation, issue and offering of the Notes and the Coupons and the execution or delivery of this Trust Deed. The relevant Issuer will also indemnify the Trustee, the Noteholders and the Couponholders from and against all stamp, issue, documentary or other taxes paid by any of them in any jurisdiction in connection with any action taken by or on behalf of the Trustee or, as the case may be, the Noteholders or the Couponholders to enforce the relevant Issuer's or any Guarantor's obligations under this Trust Deed.

4.2 Change of Taxing Jurisdiction

If the relevant Issuer or a Guarantor becomes subject generally to the taxing jurisdiction of a territory or an authority of or in that territory having power to tax other than or in addition to the United Kingdom (in the case of BATIF and British American Tobacco) or The Netherlands (in the case of BATNF) or the United States (in the case of BATCAP) or any such authority of or in such territory then such Issuer or, as the case may be, the relevant Guarantor will (unless the Trustee otherwise agrees) give the Trustee an undertaking satisfactory to the Trustee in terms corresponding to the terms of Condition 7 with the substitution for, or (as the case may require) the addition to, the references in that Condition to the United Kingdom (in the case of BATIF and British American Tobacco), The Netherlands (in the case of BATNF) or the United States (in the case of BATCAP) of references to that other or additional territory or authority to whose taxing jurisdiction such Issuer or the relevant Guarantor has become so subject. In such event this Trust Deed and the Notes will be read accordingly.

5. GUARANTEE AND INDEMNITY

5.1 Guarantee

The Guarantors, jointly and severally, unconditionally and irrevocably guarantee that, if the relevant Issuer does not pay any sum payable by it under this Trust Deed by the time and on the date specified for such payment (whether on the normal due date, on acceleration or otherwise), the Guarantors will pay that sum to or to the order of the Trustee, in the manner provided in Clause 2.2 (or if in respect of sums due under Clause 9, in London in pounds sterling in immediately available funds) before close of business on that date in the city to which payment is so to be made. Clause 2.2(a), (b) and (c) will apply (with consequential amendments as necessary) to such payments other than those in respect of sums due under Clause 9. All payments under this Trust Deed by the Guarantors will be made subject to the provisions of Clause 4.2, Condition 7 and Subclause 5.9 of this Clause.

5.2 Guarantor(s) as Principal Debtor

As between the Guarantors and the Trustee, the Noteholders and the Couponholders but without affecting the relevant Issuer's obligations, each of the Guarantors will be liable under this Clause as if it were the sole principal debtor and not merely a surety. Accordingly, it will not be discharged, nor will its liability be affected, by anything which would not discharge it or affect its liability if it were the sole principal debtor (including (a) any time, indulgence, waiver or consent at any time given to the relevant Issuer or any other person, (b) any amendment to any other provisions of this Trust Deed or to the Conditions or to any security or other guarantee or indemnity, (c) the making or absence of any demand on the relevant Issuer or any other person for payment, (d) the enforcement or absence of enforcement of this Trust Deed or of any security or other guarantee or indemnity, (e) the taking, existence or release of any security, guarantee or indemnity, (f) the dissolution, amalgamation, reconstruction or reorganisation of the relevant Issuer or any other person or (g) the illegality, invalidity or unenforceability of or any defect in any provision of this Trust Deed or any of the relevant Issuer's obligations under any of them).

5.3 Guarantor's Obligations Continuing

Each of the Guarantors' obligations under this Trust Deed are and will remain in full force and effect by way of continuing security until no sum remains payable under this Trust Deed. Furthermore, the obligations of the Guarantors are additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of any person, whether from the Guarantors or otherwise and may be enforced without first having recourse to the relevant Issuer, any other person, any security or any other guarantee or indemnity. Each of the Guarantors irrevocably waives (a) any right which it has whether by virtue of the *droit de discussion* or otherwise to require that recourse be had to the assets of the relevant Issuer before any claim is enforced against it and (b) all notices and demands of any kind.

5.4 Exercise of Guarantor's Rights

So long as any sum remains due and outstanding under this Trust Deed:

- (a) any right of a Guarantor, by reason of the performance of any of its obligations under this Clause, to be indemnified by the relevant Issuer or to take the benefit of or to enforce any security or other guarantee or indemnity will be exercised and enforced by such Guarantor only in such manner and on such terms as the Trustee may require or approve; and

- (b) any amount received or recovered by a Guarantor (a) as a result of any exercise of any such right or (b) in the dissolution, amalgamation, reconstruction or reorganisation of the relevant Issuer will be immediately paid to the Trustee and the Trustee will hold it on the trusts set out in Clause 6.1.

5.5 **Suspense Account**

Any amount received or recovered by the Trustee (otherwise than as a result of a payment by the relevant Issuer to the Trustee in accordance with Clause 2) in respect of any sum payable by the relevant Issuer under this Trust Deed may be placed in a suspense account and kept there for so long as the Trustee thinks fit.

5.6 **Avoidance of Payments**

If any payment received by the Trustee or any Noteholder or Couponholder pursuant to the provisions of this Trust Deed is, on the subsequent bankruptcy or insolvency of the relevant Issuer, avoided under any laws related to bankruptcy or insolvency, such payment will not be considered as having discharged or diminished the liability of the Guarantors and this Guarantee will continue to apply as if such payment had at all times remained owing by the relevant Issuer.

5.7 **Debts of Issuer**

If any moneys become payable by the Guarantors under this Guarantee, the relevant Issuer will not (except in the event of the liquidation of the relevant Issuer), so long as any such moneys remain unpaid, pay any moneys for the time being due from the relevant Issuer to any of the Guarantors.

5.8 **Indemnity**

As separate, independent and alternative stipulations, each of the Guarantors unconditionally and irrevocably agrees (a) that any sum which, although expressed to be payable by the relevant Issuer under this Trust Deed, is for any reason (whether or not now existing and whether or not now known or becoming known to the relevant Issuer, the Guarantors, the Trustee or any Noteholder or Couponholder) not recoverable from a Guarantor on the basis of a guarantee will nevertheless be recoverable from it as if it were the sole principal debtor and will be paid by it to the Trustee on demand and (b) as a primary obligation to indemnify the Trustee, each Noteholder and each Couponholder against any loss suffered by it as a result of (i) any sum expressed to be payable by the relevant Issuer under this Trust Deed not being paid on the date and otherwise in the manner specified in this Trust Deed or (ii) any payment obligation of the relevant Issuer under this Trust Deed being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Trustee, any Noteholder or any Couponholder), the amount of that loss being the amount expressed to be payable by the relevant Issuer in respect of the relevant sum.

5.9 **Taxes**

- (a) All payments of principal and interest by the Guarantors will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges (together, **Taxes**) of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom (in the case of BATIF and British American Tobacco), The Netherlands (in the case of BATNF) and the United States (in the case of BATCAP) or any political subdivision thereof or any authority thereof or therein having power to levy the same unless such withholding or deduction is required by law. In that event, the relevant Guarantor shall (subject as provided below) pay such amounts (the **Additional Amounts**) as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such Taxes been required to be withheld or deducted.

- (b) No Additional Amounts will be payable by BATIF or British American Tobacco in respect of Notes or Coupons:
 - (i) presented for payment by or on behalf of a Noteholder or Couponholder who is liable for such withheld or deducted Taxes by reason of his having some connection with the United Kingdom other than the mere holding of a Note or Coupon; or
 - (ii) to, or to a third party on behalf of, a holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom, unless such holder proves that he is not entitled so to comply or to make such declaration or claim; or
 - (iii) presented for payment in the United Kingdom; or
 - (iv) presented for payment more than 30 days after the Relevant Date except to the extent that a Noteholder or Couponholder would have been entitled to payment of such Additional Amounts if he had presented his Note or Coupon for payment on the thirtieth day after the Relevant Date.
- (c) No Additional Amounts will be payable by BATNF in respect of Notes or Coupons:
 - (i) presented for payment by or on behalf of a Noteholder or Couponholder who is liable for such withheld or deducted Taxes by reason of his having some connection with The Netherlands other than the mere holding of a Note or Coupon; or
 - (ii) to, or to a third party on behalf of, a holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in The Netherlands, unless such holder proves that he is not entitled so to comply or to make such declaration or claim; or
 - (iii) presented for payment in The Netherlands; or
 - (iv) presented for payment more than 30 days after the Relevant Date except to the extent that a Noteholder or Couponholder would have been entitled to payment of such Additional Amounts if he had presented his Note or Coupon for payment on the thirtieth day after the Relevant Date; or
 - (v) to, or to another party on behalf of, a holder if such Additional Amounts are payable for or on account of any Taxes imposed or to be withheld in The Netherlands pursuant to the Dutch Withholding Tax Act 2021 (Wet bronbelasting 2021).
- (d) In relation to BATCAP, the obligations set out in subclause 5.9(a) above shall not apply to:
 - (i) any such Taxes which would not have been so imposed but for (i) the existence of any present or former connection between the holder (or between a fiduciary, settlor, beneficiary, member or shareholder of or possessor of a power over such holder, if such holder is an estate, a trust, a partnership or a corporation) and the United States, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or possessor) being or having been a citizen or resident thereof, or being or having been engaged in a trade or business therein or being or having been present therein, or having or having had a permanent establishment therein, or (ii) such holder's present or former status

as a personal holding company, passive foreign investment company, controlled foreign corporation or private foundation or other tax-exempt organisation (in each case, for United States federal income tax purposes), or as a corporation which accumulates earnings to avoid United States federal income taxes; or

- (ii) any such Taxes which would not have been so imposed but for the presentation of a Note or Coupon for payment more than 30 days after the Relevant Date except to the extent that a Noteholder or Couponholder would have been entitled to payment of such Additional Amounts if he had presented his Note or Coupon for payment on the thirtieth day after the Relevant Date; or
- (iii) any estate, inheritance, gift, sales, transfer or personal property Taxes or any similar Taxes; or
- (iv) any such Taxes which would not have been imposed but for the failure to comply with certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connection with the United States of the holder of a Note or Coupon, if such compliance is required by statute, by regulation of the United States Treasury Department or by an applicable income tax treaty to which the United States is a party as a precondition to relief or exemption from such Taxes; or
- (v) any such Taxes which are payable otherwise than by deduction or withholding from payments in respect of a Note or Coupon; or
- (vi) any such Taxes imposed on interest received by a 10 per cent. shareholder of the Issuer within the meaning of Section 871(h)(3)(B) or Section 881(c)(3)(B) of the United States Internal Revenue Code of 1986, as amended (the **Code**) (or any amended or successor provisions); or
- (vii) any such Taxes imposed by reason of a holder of a Note or Coupon being or having been a bank receiving payments on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business, as described in Section 881(c)(3)(A) of the Code (or any amended or successor provisions); or
- (viii) any backup withholding imposed pursuant to Section 3406 of the Code (or any amended or successor provisions); or
- (ix) any such Taxes imposed pursuant to Section 871(h)(6) or 881(c)(6) of the Code (or any amended or successor provisions); and
- (x) any combination of clauses (i) to (ix) above;

nor will any Additional Amounts be paid in respect of a Note or Coupon to any holder who is not a United States Alien or to any United States Alien who is a fiduciary or partnership or person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Note or Coupon. The term **“United States Alien”** means any person who, for United States federal income tax purposes, is a foreign corporation, a non-resident alien individual, a non-resident alien fiduciary of a foreign estate or trust or a foreign partnership any partner of which is for United States federal income tax purposes a foreign corporation, a non-resident alien individual, a non-resident alien fiduciary of a foreign estate or trust or any such foreign partnership.

6. APPLICATION OF MONEYS AND PARTIAL PAYMENTS

6.1 Declaration of Trust

All moneys received by the Trustee under this Trust Deed from the relevant Issuer or, as the case may be, the Guarantors (including any moneys which represent principal or interest in respect of Notes or Coupons which have become void under Condition 8) shall, unless and to the extent attributable, in the opinion of the Trustee, to a particular Series of the Notes, be apportioned *pari passu* and rateably between each Series of the Notes, and all moneys received by the Trustee under this Trust Deed from the relevant Issuer or, as the case may be, the Guarantors to the extent attributable in the opinion of the Trustee to a particular Series of the Notes or which are apportioned to such Series as aforesaid, be held by the Trustee upon trust to apply them (subject to Clause 5.5 and Clause 7):

FIRST in payment or satisfaction of all amounts then due and unpaid under these presents to the Trustee and/or any appointee;

SECONDLY in or towards payment *pari passu* and rateably of all principal and interest then due and unpaid in respect of the Notes of that Series;

THIRDLY in or towards payment *pari passu* and rateably of all principal and interest then due and unpaid in respect of the Notes of each other Series; and

FOURTHLY in payment of the balance (if any) to the relevant Issuer (without prejudice to, or liability in respect of, any question as to how such payment to the relevant Issuer shall be dealt with as between the relevant Issuer and any other person) or, in the event that any moneys were received from any Guarantor, to the extent of such moneys, to such Guarantor.

Without prejudice to this Subclause 6.1, if the Trustee holds any moneys which represent principal or interest in respect of Notes which have become void or in respect of which claims have been prescribed under Condition 8, the Trustee will hold such moneys on the above trusts.

6.2 Partial Payments

Upon any payment under Subclause 6.1 (other than payment in full against surrender of a Note or Coupon) the Note or Coupon in respect of which such payment is made shall be produced to the Trustee or the Paying Agent by or through whom such payment is made and (except in the case of a NGN) the Trustee shall or shall cause such Paying Agent to enface thereon a memorandum of the amount and the date of payment but the Trustee may in any particular case dispense with such production and enfacement upon such indemnity being given as it shall think sufficient.

7. INVESTMENT BY THE TRUSTEE

7.1 No provision of these presents shall (a) confer on the Trustee any right to exercise any investment discretion in relation to the assets subject to the trust constituted by these presents and, to the extent permitted by law, Section 3 of the Trustee Act 2000 shall not apply to the duties of the Trustee in relation to the trusts constituted by these presents and (b) require the Trustee to do anything which may cause the Trustee to be considered a sponsor of a covered fund under Section 619 of the Dodd- Frank Wall Street Reform and Consumer Protection Act and any regulations promulgated thereunder.

7.2 The Trustee may deposit moneys in respect of the Notes in its name in an account at such bank or other financial institution as the Trustee may, in its absolute discretion, think fit. If that bank or financial institution is the Trustee or a subsidiary, holding or associated company of the Trustee, the Trustee need only account for an amount of interest equal to the amount of interest which would, at then current rates, be payable by it on such a deposit to an independent customer.

7.3 The parties acknowledge and agree that in the event that any deposits in respect of the Notes are held by a bank or a financial institution in the name of the Trustee and the interest rate in respect of certain currencies is a negative value such that the application thereof would result in amounts being debited from funds held by such bank or financial institution (“**negative interest**”), the Trustee shall not be liable to make up any shortfall or be liable for any loss.

7.4 The Trustee may at its discretion accumulate such deposits and the resulting interest and other income derived thereon. The accumulated deposits shall be applied under Clause 6. All interest and other income deriving from such deposits shall be applied first in payment or satisfaction of all amounts then due and unpaid under Clause 6 to the Trustee and otherwise held for the benefit of and paid to the Noteholders of such Series or the holders of the related Coupons, as the case may be.

8. COVENANTS

So long as any of the Notes of any Series remains outstanding, the relevant Issuer and the Guarantors will each:

- (a) **Books of Account:** keep, and use reasonable endeavours to procure that each of their respective subsidiaries keeps, proper books of account and, at any time after an Event of Default or Potential Event of Default has occurred or if the Trustee reasonably believes that such an event has occurred, so far as permitted by applicable law, allow, and procure that each of their respective subsidiaries will allow, the Trustee and anyone appointed by it to whom the relevant Issuer, the Guarantors and/or the relevant subsidiary has no reasonable objection, access to its books of account at all reasonable times during normal business hours;
- (b) **Notice of Events of Default:** notify the Trustee in writing immediately on becoming aware of the occurrence of any Event of Default or Potential Event of Default;
- (c) **Information:** so far as permitted by applicable law, give the Trustee such information as it reasonably requires to perform its functions pursuant to this Trust Deed;
- (d) **Financial Statements etc:** send to the Trustee at the time of their issue and in the case of annual financial statements in any event within 180 days of the end of each financial year three copies (in English) of every balance sheet, profit and loss account, report or other notice, statement or circular issued, or which legally or contractually should be issued, to the members or creditors (or any class of them) of the relevant Issuer or the Guarantors or any Holding Company thereof, as the case may be, generally in its or their capacity as such;
- (e) **Certificates of Directors:** send to the Trustee, within 30 days of its annual audited financial statements being made available to its members, and also within 30 days of any request by the Trustee, a certificate of the relevant Issuer or, as the case may be, each Guarantor signed by any two of its Directors or any one of its Directors and its Secretary or Assistant Secretary that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the relevant Issuer or, as the case may be, the relevant Guarantor as at a date (the **Certification Date**) not more than five days before the date of the certificate no Event of Default or Potential Event of Default or other breach of this Trust Deed existed or had occurred since the Certification Date of the last such certificate or, if none, the date of this Deed or, if such an event exists or had occurred, giving details of it;

- (f) **Notices to Bondholders:** send, or procure that the Agent sends, to the Trustee at least 48 hours prior to publication the form of each notice to be given to Noteholders and, once given, two copies of each such notice, such notice to be in a form approved in writing by the Trustee (such approval, unless expressed to do so not to constitute approval for the purposes of Section 21 of the FSMA of a communication within the meaning of Section 21 of the FSMA);
- (g) **Further Acts:** so far as permitted by applicable law, do such further things as may be necessary in the opinion of the Trustee to give effect to this Trust Deed;
- (h) **Notice of late payment:** forthwith upon request by the Trustee give notice to the Noteholders of any unconditional payment to the Agent or the Trustee of any sum due in respect of the Notes or Coupons made after the due date for such payment;
- (i) **Listing:** use all reasonable endeavours to maintain the quotation or listing of the Notes on the Stock Exchange but, if it is unable to do so, having used such endeavours, or if the obtaining or maintenance of such quotation or listing is agreed by the Trustee to be unduly onerous and the Trustee is satisfied that the interests of the Noteholders would not be thereby materially prejudiced, instead use all reasonable endeavours to obtain and maintain a quotation or listing of the Notes on another stock exchange approved in writing by the Trustee;
- (j) **Change in Agents:** give at least 14 days' prior notice to the Noteholders of any future appointment, resignation or removal of any Agent, Calculation Agent, Reference Bank or other Paying Agent or of any change by any Paying Agent or Reference Bank of its specified office and not make any such appointment or removal without the Trustee's written approval;
- (k) **Notes held by Issuer etc:** send to the Trustee as soon as practicable after being so requested by the Trustee a certificate of the relevant Issuer or, as the case may be, each Guarantor signed by any two of its Directors or any one of its Directors and its Secretary or Assistant Secretary stating the number and nominal amount of Notes held at the date of such certificate by or on behalf of the relevant Issuer or, as the case may be, each Guarantor or their respective subsidiaries;
- (l) **Payment of interest in the United States:** if, in accordance with the provisions of the Conditions, interest in respect of the Notes becomes payable at the specified office of any Paying Agent in the United States of America promptly give notice thereof to the relative Noteholders in accordance with Condition 13;
- (m) **Euroclear and Clearstream, Luxembourg:** use all reasonable endeavours to procure that Euroclear and/or Clearstream, Luxembourg (as the case may be) issue(s) any record, certificate or other document requested by the Trustee under Clause 10.18 or otherwise as soon as practicable after such request;
- (n) **Drawings:** give prior written notice to the Trustee of any proposed redemption pursuant to Conditions 6(b) or 6(c) and, if it shall have given notice to the Noteholders of its intention to redeem any Notes pursuant to Condition 6(c), duly proceed to make drawings (if appropriate) and to redeem Notes accordingly;
- (o) **Programme Agreement:** promptly provide the Trustee with copies of all supplements and/or amendments and/or restatements of the Programme Agreement; and

- (p) **Holding Company:** in the event that any company, the share capital of which is or is to be listed on the London Stock Exchange, becomes the ultimate Holding Company of British American Tobacco, procure that such Holding Company shall become a guarantor under this Trust Deed, jointly and severally with the Guarantors, with effect from the later of (i) the date on which such company becomes the ultimate Holding Company of British American Tobacco and (ii) the date on which the share capital of such Holding Company is listed on the London Stock Exchange and, in such event, the term "Guarantors" herein shall be deemed to include such Holding Company.

9. REMUNERATION AND INDEMNIFICATION OF THE TRUSTEE

9.1 Normal Remuneration

So long as the Notes remain outstanding the relevant Issuer will pay the Trustee as remuneration for its services as Trustee such sum on such dates in each case as they may from time to time agree. Such remuneration will accrue from day to day from the date of this Deed or as otherwise agreed between the relevant Issuer, and the Trustee from time to time and shall be payable on such dates as they may from time to time agree. Such remuneration shall accrue from day to day and be payable (in priority to payments to Noteholders and Couponholders) up to and including the date when, all the Notes having become due for redemption, the moneys payable in respect thereof have been paid to the Agent or the Trustee. However, if any payment to a Noteholder or Couponholder of moneys due in respect of any Note or Coupon is improperly withheld or refused, such remuneration will again accrue as from the date of such withholding or refusal until payment to such Noteholder or Couponholder is duly made.

9.2 Extra Remuneration

If an Event of Default or a Potential Event of Default shall have occurred the relevant Issuer hereby agrees that the Trustee shall be entitled to be paid additional remuneration, which may be calculated at its normal hourly rates in force from time to time. In any other case, if the Trustee finds it expedient or necessary or is requested by the relevant Issuer to undertake duties which they both agree to be of an exceptional nature or otherwise outside the scope of the Trustee's normal duties under this Trust Deed, the relevant Issuer will pay such additional remuneration as they may agree (which may be calculated by reference to the Trustee's normal hourly rates in force from time to time) or, in the event of the Trustee and the relevant Issuer failing to agree as to any of the matters in this Subclause (or as to such sums referred to in Subclause 9.1), as determined by an investment bank or other person (acting as an expert and not as an arbitrator) selected by the Trustee and approved by the relevant Issuer or, failing such approval, nominated by the President for the time being of The Law Society of England and Wales. The expenses involved in such nomination and such investment bank's or other person's fee will be payable by the relevant Issuer. The determination of such investment bank or other person will be conclusive and binding on the relevant Issuer, the Guarantors, the Trustee, the Noteholders and the Couponholders.

9.3 Expenses

The relevant Issuer will also on demand by the Trustee pay or discharge all liabilities and expenses reasonably incurred by the Trustee in the preparation and execution of this Trust Deed and the performance of its functions under this Trust Deed including, but not limited to, legal and travelling expenses and any stamp, documentary or other taxes or duties paid by the Trustee in connection with any legal proceedings reasonably brought or contemplated by the Trustee against the relevant Issuer or any Guarantor to enforce any provision of, or resolving any doubt concerning, or for any other purpose in relation to this Trust Deed.

9.4 Indemnity

Subject to section 750 of the Companies Act 2006 (if applicable), the relevant Issuer will indemnify the Trustee in respect of all liabilities and expenses properly incurred by it or by anyone appointed by it or to whom any of its functions hereunder may be delegated by it in the carrying out of its functions hereunder and against any loss, liability, cost, claim, action, demand or expense (including, but not limited to, all costs, charges and expenses paid or incurred in disputing or defending any of the foregoing) which any of them may incur or which may be made against any of them arising out of or in relation to or in connection with, its appointment or the exercise of its functions hereunder.

9.5 Rate of Interest

All amounts due and payable pursuant to Subclauses 9.3 and 9.4 shall be payable by the relevant Issuer on the date specified in a demand in writing by the Trustee. The rate of interest applicable to such payments shall be a rate equivalent to 1 per cent. per annum over the base rate of National Westminster Bank PLC for such time as such amount remains unpaid and interest shall accrue:

- (a) in the case of payments made by the Trustee before the date of such written demand from the date on which the payment was made or such later date as specified in such written demand; or
- (b) in the case of payments made by the Trustee on or after the date of the written demand, from the date specified in such written demand, which date shall not be a date earlier than the date such payments are made.

All remuneration payable to the Trustee shall carry interest at the rate specified in this clause 9.5 from the date thereof.

9.6 Continuing Effect

Subclauses 9.3 and 9.4 will continue in full force and effect as regards the Trustee even if it no longer is Trustee.

9.7 Apportionment

The Trustee shall be entitled in its absolute discretion to determine in respect of which Series of Notes any liabilities, costs, charges and expenses incurred under this Trust Deed have been incurred or to allocate any such liabilities, costs, charges and expenses between the Notes of more than one Series.

9.8 No withholding or deduction

All payments to be made by the relevant Issuer to the Trustee under clause 9 of this Trust Deed shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within any relevant jurisdiction or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the relevant Issuer shall pay such additional amounts as will, after such deduction or withholding has been made, leave the Trustee with the full amount which would have been received by it had no such withholding or deduction been required.

10. PROVISIONS SUPPLEMENTAL TO THE TRUSTEE ACTS

10.1 Advice

The Trustee may act on the opinion or advice of, or information obtained from, any expert and will not be responsible to anyone for any loss occasioned by so acting. Any such opinion, advice or information may be sent or obtained by letter or fax and the Trustee will not be liable to anyone for acting in good faith on any opinion, advice or information purporting to be conveyed by such means even if it contains some error or is not authentic.

10.2 Trustee to Assume Performance

The Trustee need not notify anyone of the execution of this Trust Deed or do anything to find out if an Event of Default or Potential Event of Default has occurred. Until it has actual knowledge or express notice to the contrary, the Trustee may assume that no such event has occurred and that the relevant Issuer and the Guarantors are performing all their obligations under this Trust Deed.

10.3 Resolutions of Noteholders

The Trustee will not be responsible for having acted in good faith on a resolution in writing or any resolution purporting to have been passed at a meeting of Noteholders in respect of which minutes have been made and signed or any Extraordinary Resolution passed by way of electronic consents received through the relevant Clearing System(s) in accordance with this Trust Deed even if it is later found that there was a defect in the constitution of the meeting or the passing of the resolution, (in the case of a resolution in writing) that not all the holders had signed the resolution or (in the case of an Extraordinary Resolution passed by electronic consents received through the relevant Clearing System(s)) it was not approved by the requisite number of Noteholders or that the resolution was not valid or binding on the Noteholders or the Couponholders.

10.4 Certificate signed by Directors

If the Trustee, in the exercise of its functions, requires to be satisfied or to have information as to any fact or the expediency of any act, it may call for and accept as sufficient evidence of that fact or the expediency of that act a certificate signed by any two Directors or any one Director and the Secretary or Assistant Secretary of the relevant Issuer or any Guarantor (as the case may be) as to that fact or to the effect that, in their opinion, that act is expedient and the Trustee need not call for further evidence and will not be responsible for any loss occasioned by acting on such a certificate.

10.5 Deposit of Documents

The Trustee may deposit this Trust Deed and any other documents with any bank or entity whose business includes the safe custody of documents or with any lawyer or firm of lawyers believed by it to be of good repute and may pay all sums due in respect thereof.

10.6 Discretion

The Trustee will have absolute and uncontrolled discretion as to the exercise of its functions and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from their exercise or non-exercise.

10.7 Agents

Whenever it considers it expedient in the interests of the Noteholders, the Trustee may, in the conduct of its trust business, instead of acting personally, employ and pay an agent selected by it,

whether or not a lawyer or other professional person, to transact or conduct, or concur in transacting or conducting, any business and to do or concur in doing all acts required to be done by the Trustee (including the receipt and payment of money). If the Trustee exercises reasonable care in selecting such agent, the Trustee will not be responsible to anyone for any misconduct or omission by any such agent so employed by it or be bound to supervise the proceedings or acts of any such agent.

10.8 Delegation

Whenever it considers it expedient in the interests of the Noteholders, the Trustee may delegate to any person on any terms (including power to sub-delegate) all or any of its functions. If the Trustee exercises reasonable care in selecting such delegate, it will not have any obligation to supervise such delegate or be responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default by any such delegate or sub-delegate.

10.9 Nominee/Custodian

The Trustee may appoint and pay a custodian or nominee on any terms in relation to assets of the trusts constituted by these presents. If the Trustee exercises reasonable care in selecting such custodian or nominee, it will not have any obligation to supervise such custodian or nominee and shall not be responsible to anyone for any loss, liability, cost, claim, action, demand or expense incurred as a result of any misconduct or default by the custodian or nominee.

10.10 Forged Bonds

The Trustee will not be liable to the relevant Issuer or any Guarantor or any Noteholder or Couponholder by reason of having accepted as valid or not having rejected any Note or Coupon purporting to be such and later found to be forged or not authentic.

10.11 Confidentiality

Unless ordered to do so by a court of competent jurisdiction the Trustee shall not be required to disclose to any Noteholder or Couponholder any confidential, financial or other information made available to the Trustee by the relevant Issuer or any Guarantor or any other person.

10.12 Determinations Conclusive

As between itself and the Noteholders and Couponholders the Trustee may determine all questions and doubts arising in relation to any of the provisions of this Trust Deed. Such determinations, whether made upon such a question actually raised or implied in the acts or proceedings of the Trustee, will be conclusive and shall bind the Trustee, the Noteholders and the Couponholders.

10.13 Currency Conversion

Where it is necessary or desirable to convert any sum from one currency to another, it will (unless otherwise provided hereby or required by law) be converted at such rate or rates, in accordance with such method and as at such date as may reasonably be specified by the Trustee but having regard to current rates of exchange, if available. Any rate, method and date so specified will be binding on the relevant Issuer, the Guarantors, the Noteholders and the Couponholders.

10.14 Events of Default

The Trustee may determine whether or not an Event of Default or Potential Event of Default is in its opinion capable of remedy and/or materially prejudicial to the interests of the Noteholders. Any such determination will be conclusive and binding on the relevant Issuer, the Guarantors, the Noteholders and the Couponholders.

10.15 Payment for and Delivery of Notes

The Trustee will not be responsible for the receipt or application by the relevant Issuer of the proceeds of the issue of the Notes, any exchange of Notes or the delivery of Notes to the persons entitled to them.

10.16 Notes held by the Issuer etc

In the absence of knowledge or express notice to the contrary, the Trustee may assume without enquiry (other than requesting a certificate under Clause 8(k)) that no Notes are for the time being held by or on behalf of the relevant Issuer, the Guarantors or their respective subsidiaries.

10.17 Interests of Noteholders as a class

In connection with the exercise by it of any of its trusts, powers, authorities or discretions under this Trust Deed (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the relevant Issuer, the Guarantors, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition thereto or in substitution therefor under this Trust Deed.

10.18 Certificate of Euroclear or Clearstream, Luxembourg

The Trustee may call for and rely on any record and/or document and/or evidence and/or information and/or certification to be issued or given by Euroclear or Clearstream, Luxembourg (a) as to the nominal amount of Notes represented by a Global Note standing to the account of any person and/or (b) in relation to any determination of the nominal amount of Notes represented by a NGN. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's Easy-Way or Clearstream, Luxembourg's Creation Online system) in accordance with its usual procedures. The Trustee shall not be liable to any person by reason of having accepted as valid or not having rejected any record and/or document and/or evidence and/or information and/or certification to such effect purporting to be issued or given by Euroclear or Clearstream, Luxembourg and subsequently found to be forged or not authentic.

10.19 Trustee not bound to act

Save as otherwise expressly provided in this Trust Deed, the Trustee shall have absolute and uncontrolled discretion as to the exercise of the discretions hereby vested in the Trustee, but, whenever the Trustee is under the provisions of this Trust Deed bound to act at the request or direction of the Noteholders, the Trustee shall nevertheless not be so bound unless first indemnified and/or secured and/or prefunded to its satisfaction against all proceedings, claims and demands to which it may render itself liable and all costs, charges, expenses and liabilities which it may incur by so doing, including the cost of its management's time and/or other internal resources, calculated using its normal hourly rates in force from time to time.

10.20 Illegality

No provision of this Trust Deed shall require the Trustee to do anything which may in its opinion be illegal or contrary to applicable law or regulation.

10.21 Trustee's own funds

Nothing contained in this Trust Deed shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of any right, power, authority or discretion hereunder if it has grounds for believing the repayment of such funds or adequate indemnity against, or security for, such risk or liability is not assured to it.

10.22 Trustee entitled to evaluate risk

When determining whether an indemnity or any security is satisfactory to it, the Trustee shall be entitled to evaluate its risk in given circumstances by considering the worst-case scenario and, for this purpose, it may take into account, without limitation, the potential costs of defending or commencing proceedings in England or elsewhere and the risk however remote, of any award of damages against it in England or elsewhere.

10.23 Noteholder indemnities

The Trustee shall be entitled to require that any indemnity or security given to it by the Noteholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

10.24 Consents and Approvals

Any consent or approval given by the Trustee for the purposes of these presents may be given on such terms and subject to such conditions (if any) as the Trustee thinks fit and notwithstanding anything to the contrary in these presents may be given retrospectively. The Trustee may give any consent or approval, exercise any power, authority or discretion or take any similar action (whether or not such consent, approval, power, authority, discretion or action is specifically referred to in these presents) if it is satisfied that the interests of the Noteholders will not be materially prejudiced thereby. For the avoidance of doubt, the Trustee shall not have any duty to the Noteholders in relation to such matters other than that which is contained in the preceding sentence.

11. TRUSTEE LIABLE FOR NEGLIGENCE

11.1 The duty of care contained in Section 1 of the Trustee Act 2000 shall not apply to this Trust Deed. However, subject to Section 750 of the Companies Act 2006 (if applicable), if the Trustee fails to show the degree of care and diligence required of it as trustee, nothing in this Trust Deed shall relieve or indemnify it for, from or against any liability which would otherwise attach to it in respect of any negligence, wilful default or fraud of which it may be guilty. Where there are any inconsistencies between the Trustee Acts and the provisions of these presents, the provisions of these presents shall, to the extent allowed by law, prevail and, in the case of any such inconsistency with the Trustee Act 2000, the provisions of this Trust Deed shall take effect as a restriction or exclusion for the purposes of that Act.

11.2 Notwithstanding any provision of these presents to the contrary, neither party shall in any event be liable for:

- (a) loss of profit, loss of business, loss of goodwill, loss of opportunity, whether direct or indirect; and
- (b) special, indirect, punitive or consequential loss or damage of any kind whatsoever,

whether or not foreseeable, whether or not such party can reasonably be regarded as having assumed responsibility at the time this Trust Deed is entered into, even if such party has been advised of the likelihood of such loss or damage, unless the claim for loss or damage is made in respect of fraud on the part of such party.

12. WAIVER AND PROOF OF DEFAULT

12.1 Waiver

The Trustee may, without the consent of the Noteholders or the Couponholders and without prejudice to its rights in respect of any subsequent breach, from time to time and at any time, if in its opinion the interests of the Noteholders will not be materially prejudiced thereby, on such terms as seem expedient to it, waive or authorise any breach or proposed breach by the relevant Issuer or any Guarantor of this Trust Deed or the Conditions or determine that any Event of Default or Potential Event of Default will not be treated as such provided that the Trustee will not do so in contravention of an express direction given by an Extraordinary Resolution or a request made pursuant to Condition 9(a). No such direction or request will affect a previous waiver, authorisation or determination. Any such waiver, authorisation or determination will be binding on the Noteholders and the Couponholders and, if the Trustee so requires, will be notified to the Noteholders as soon as practicable.

12.2 Proof of Default

Proof that the relevant Issuer or any Guarantor has failed to pay a sum due to the holder of any Note or Coupon will (unless the contrary be proved) be sufficient evidence that it has made the same default as regards all other Notes or Coupons which are then payable.

13. TRUSTEE CONTRACTING WITH THE ISSUER AND THE GUARANTORS

Neither the Trustee nor any director or officer or holding company, subsidiary or associated company of a corporation acting as a trustee under this Trust Deed shall by reason of its or his fiduciary position be in any way precluded from:

- (a) entering into or being interested in any contract or financial or other transaction or arrangement with the relevant Issuer or any of the Guarantors or any person or body corporate associated with the relevant Issuer or any of the Guarantors (including without limitation any contract, transaction or arrangement of a banking or insurance nature or any contract, transaction or arrangement in relation to the making of loans or the provision of financial facilities or financial advice to, or the purchase, placing or underwriting of or the subscribing or procuring subscriptions for or otherwise acquiring, holding or dealing with, or acting as paying agent in respect of, the Notes or any other notes, bonds, stocks, shares, debenture stock, debentures or other securities of, any Issuer or any person or body corporate associated as aforesaid); or
- (b) accepting or holding the trusteeship of any other trust deed constituting or securing any other securities issued by or relating to the relevant Issuer or any of the Guarantors or any such person or body corporate so associated, or any other office of profit under the relevant Issuer or any of the Guarantors or any such person or body corporate so associated,

and shall be entitled to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such contract, transaction or arrangement as is referred to in (a) above or, as the case may be, any such trusteeship or office of profit as is referred to in (b) above without regard to the interests of the Noteholders and notwithstanding that the same may be contrary or prejudicial to the interests of the Noteholders and shall not be responsible for any liability or expense occasioned to the Noteholders thereby and shall be entitled to retain and shall not be in any way liable to account for any profit made or share of brokerage or commission or remuneration or other amount or benefit received thereby or in connection therewith.

Where any holding company, subsidiary or associated company of the Trustee or any director or officer of the Trustee acting other than in his capacity as such a director or officer has any information, the Trustee shall not thereby be deemed also to have knowledge of such information and, unless it shall have actual knowledge of such information, shall not be responsible for any loss suffered by Noteholders resulting from the Trustee's failing to take such information into account in acting or refraining from acting under or in relation to this Trust Deed.

14. MODIFICATION AND SUBSTITUTION

14.1 Modification

The Trustee may without the consent or sanction of the Noteholders or the Couponholders at any time and from time to time concur with the relevant Issuer in making any modification (a) to this Trust Deed which in the opinion of the Trustee it may be proper to make PROVIDED THAT the Trustee is of the opinion that such modification will not be materially prejudicial to the interests of the Noteholders or (b) to this Trust Deed if in the opinion of the Trustee such modification is of a formal, minor or technical nature, to correct a manifest error or to comply with mandatory provisions of applicable law.

In addition, the Trustee shall be obliged to concur with the relevant Issuer in effecting any Benchmark Amendments in the circumstances and as otherwise set out in Condition 4(b)(ii)(C)(4) without the consent of the Noteholders or Couponholders.

Any such modification may be made on such terms and subject to such conditions (if any) as the Trustee may determine, shall be binding upon the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, shall be notified by the relevant Issuer to the Noteholders in accordance with Condition 13 as soon as practicable thereafter.

14.2 Substitution

(a) Substitute Issuer

The Trustee may, without the consent of the Noteholders or the Couponholders, agree to the substitution of any Guarantor or its successor in business or Holding Company or any subsidiary of any Guarantor or its successor in business or Holding Company (the **Substituted Obligor**) in place of the relevant Issuer (or of any previous substitute under this Subclause) as the principal debtor under this Trust Deed provided that:

- (i) amendments to this Trust Deed are made or a trust deed is executed or some other form of undertaking is given by the Substituted Obligor to the Trustee, in any such case, in form and manner satisfactory to the Trustee, agreeing to be bound by the terms of this Trust Deed with any consequential amendments which the Trustee may deem appropriate as fully as if the Substituted Obligor had been named in this Trust Deed and on the Notes and Coupons as the principal debtor in place of the relevant Issuer;

- (ii) where the Substituted Obligor is subject generally to the taxing jurisdiction of any territory or any authority of or in that territory having power to tax (the **Substituted Territory**) other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the relevant Issuer is subject generally (the **Issuer's Territory**), the Substituted Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking in form and manner satisfactory to the Trustee in terms corresponding to the terms of Condition 7 with the substitution for the references in that Condition to the relevant jurisdiction specified in such Condition of references to the Substituted Territory and in such event this Trust Deed, the Notes and the Coupons (including, but without limitation, Clause 4.2) will be read accordingly;
- (iii) if any two of the Directors of the Substituted Obligor certify that it will be solvent immediately after such substitution, the Trustee need not have regard to the financial condition, profits or prospects of the Substituted Obligor or compare them with those of the relevant Issuer or any Guarantor; and
- (iv) the obligations of the Substituted Obligor under this Trust Deed are guaranteed by the Guarantors or their successors in business or Holding Companies (or where a Guarantor or its successor in business or Holding Company is the Substituted Obligor by the other Guarantors or their successors in business or Holding Companies) in the same terms (with consequential amendments as necessary) as the Guarantee in form and manner satisfactory to the Trustee.

(b) **Release of Substituted Issuer**

Any such agreement by the Trustee pursuant to this Subclause 14.2 will, if so expressed, operate to release the relevant Issuer (or any such previous substitute) from any or all of its obligations under this Trust Deed. Not later than 14 days after the execution of any such documents and after compliance with such requirements, notice of the substitution will be given to the Noteholders.

(c) **Completion of Substitution**

Upon the execution of such documents and compliance with such requirements, the Substituted Obligor will be deemed to be named in this Trust Deed and on the Notes and Coupons as the principal debtor in place of the relevant Issuer (or of any previous substitute under this Subclause 15.2) and this Trust Deed will be deemed to be modified in such manner as shall be necessary to give effect to the substitution.

(d) **Substitute Guarantor**

The Trustee may similarly, without the consent of the Noteholders or the Couponholders, agree to the substitution of any Guarantor's successor in business or Holding Company in place of any Guarantor, *mutatis mutandis* so far as applicable (except that the references to Condition 7 in paragraph 14.2(a)(ii) shall be construed as references to Clause 5.9 and paragraph 14.2(a)(iv) shall not be so applicable) upon the terms and subject to the conditions hereinbefore provided, with such modifications or additions as the Trustee may agree or require.

- (e) In the case of any proposed substitution pursuant to this Clause 14.2, the Trustee may, without the consent of the Noteholders or the Couponholders, agree to a change in law governing the Notes, the Coupons and/or this Trust Deed, provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders.

15. APPOINTMENT, RETIREMENT AND REMOVAL OF THE TRUSTEE

15.1 Appointment

The Issuer has the power of appointing new trustees but no trustee may be so appointed unless previously approved by an Extraordinary Resolution. A trust corporation will at all times be a Trustee and may be the sole Trustee. Any appointment of a new Trustee will be notified by the relevant Issuer to the Noteholders as soon as practicable.

15.2 Retirement and Removal

Any Trustee may retire at any time on giving at least three months' written notice to the relevant Issuer and the Guarantors without giving any reason or being responsible for any costs occasioned by such retirement and the Noteholders may by Extraordinary Resolution remove any Trustee provided that the retirement or removal of a sole trust corporation will not be effective until a trust corporation is appointed as successor Trustee. If a sole trust corporation gives notice of retirement or an Extraordinary Resolution is passed for its removal, the relevant Issuer and the Guarantors will use all reasonable endeavours to procure that another trust corporation be appointed as Trustee.

15.3 Co-Trustees

The Trustee may, despite Subclause 15.1, by written notice to the relevant Issuer and the Guarantors appoint anyone to act as an additional Trustee jointly with the Trustee:

- (a) if the Trustee considers the appointment to be in the interests of the Noteholders and/or the Couponholders;
- (b) to conform with a legal requirement, restriction or condition in any jurisdiction in which a particular act is to be performed; or
- (c) to obtain a judgment or to enforce a judgment or any provision of this Trust Deed in any jurisdiction.

Subject to the provisions of this Trust Deed the Trustee may confer on any person so appointed such functions as it thinks fit. The Trustee may by written notice to the relevant Issuer, the Guarantors and that person remove that person. At the Trustee's request, the relevant Issuer and the Guarantors will forthwith do all things as may be required to perfect such appointment or removal and each of them irrevocably appoints the Trustee as its attorney in its name and on its behalf to do so other than the payment of the costs of such appointee, if any, which will be agreed between the appointee and the Issuers and the Guarantors and otherwise subject to Clause 9.

15.4 Competence of a Majority of Trustees

If there are more than two Trustees the majority of them will be competent to perform the Trustee's functions provided the majority includes a trust corporation.

16. HOLDER OF DEFINITIVE NOTE ASSUMED TO BE COUPONHOLDER

16.1 Wherever in this Trust Deed the Trustee is required or entitled to exercise a power, trust, authority or discretion under this Trust Deed, except as ordered by a court of competent jurisdiction or as required by applicable law, the Trustee shall, notwithstanding that it may have express notice to the contrary, assume that each Noteholder is the holder of all Coupons appertaining to each Definitive Note of which he is the holder.

NO NOTICE TO COUPONHOLDERS

- 16.2 No notices need be given to Couponholders. They will be deemed to have notice of the contents of any notice given to Noteholders. Even if it has express notice to the contrary, in exercising any of its functions by reference to the interests of the Noteholders, the Trustee will assume that the holder of each Note is the holder of all Coupons relating to it.

17. CURRENCY INDEMNITY

17.1 Currency of Account and Payment

The currency in which the Notes are denominated (the **Contractual Currency**) is the currency of account and payment for all sums payable by the relevant Issuer or a Guarantor under or in connection with this Trust Deed in respect of such Notes and the relative Coupons, including damages.

17.2 Extent of discharge

An amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the relevant Issuer or a Guarantor or otherwise), by the Trustee or any Noteholder or Couponholder in respect of any sum expressed to be due to it from the relevant Issuer or a Guarantor will only discharge the relevant Issuer and the relevant Guarantor to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

17.3 Indemnity

If the relevant Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under this Trust Deed, the Notes or the Coupons, the relevant Issuer will indemnify the Trustee, any Noteholder or Couponholder against any loss sustained by any of those parties as a result. In any event, the relevant Issuer will indemnify the recipient against the cost of making any such purchase.

17.4 Indemnity separate

This indemnity constitutes a separate and independent obligation from the other obligations in this Trust Deed, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by the Trustee and/or any Noteholder or Couponholder and will continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under this Trust Deed, the Notes and/or the Coupons or any other judgment or order.

18. COMMUNICATIONS

Any communication shall be by letter or fax:

- (a) in the case of BATIF, to it (with a copy to British American Tobacco) at:
Globe House
4 Temple Place

Tel No. 020 7845 1000
Email Corporate_Finance_Financial_Risk@bat.com
Attention The Group Treasurer

- (b) in the case of BATNF, to it (with a copy to British American Tobacco) at:

Handelsweg 53A
1181 ZA Amstelveen
The Netherlands

Tel No. +31 20 5406 911
Email judith_bollen@bat.com
Attention The Board of Directors

- (c) in the case of BATCAP, to it (with a copy to British American Tobacco) at:

103 Foulk Road, Suite 120
Wilmington
Delaware 19803
United States of America

Tel No. +1 302 691 6323
Email Brian.Harrison@cscglobal.com
Attention Secretary

- (d) in the case of British American Tobacco, to it at:

Globe House
4 Temple Place
London WC2R 2PG

Tel No. 020 7845 1000
Email Corporate_Finance_Financial_Risk@bat.com
Attention The Group Treasurer

- (e) and in the case of the Trustee, to it at:

Fifth Floor
100 Wood Street
London EC2V 7EX

Fax No. 020 7606 0643
Email Trust.Support@lawdeb.com,
Attention The Manager, Trust Management

Communications will take effect, in the case of delivery, when delivered or, in the case of email or fax, when received. Communications not by letter shall be confirmed by letter but failure to send or receive that letter shall not invalidate the original communication (provided always that in relation to any communication to the Trustee an automatically generated “read” or “received” receipt shall not constitute such confirmation).

19. GOVERNING LAW

This Trust Deed and any non-contractual obligations arising out of or in connection with it is governed by, and shall be construed in accordance with, English law.

20. SUBMISSION TO JURISDICTION

- 20.1 Each of the parties hereto irrevocably agrees that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with this Trust Deed (including a dispute relating to any non-contractual obligations arising out of or in connection with it) and that accordingly any suit, action or proceedings arising out of or in connection with this Trust Deed (together referred to as **Proceedings**) may be brought in the courts of England, including any Proceedings relating to any non-contractual obligations arising out of or in connection with this Trust Deed. Each of the parties hereto irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agrees that a judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction. Nothing in this Clause shall limit any right to take Proceedings against any of the parties hereto in any other court of competent jurisdiction (outside the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982), nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.
- 20.2 Each of BATCAP and BATNF irrevocably and unconditionally appoints British American Tobacco at its registered office at Globe House, 4 Temple Place, London WC2R 2PG and in the event of its ceasing so to act will appoint such other person as the Trustee may approve and as BATCAP or BATNF, as the case may be, may nominate in writing to the Trustee for the purpose to accept service of process on its behalf in England in respect of any Proceedings. Each of BATCAP and BATNF:
- (a) agrees to procure that, so long as any of the Notes issued by it remains liable to prescription, there shall be in force an appointment of such a person approved by the Trustee with an office in London with authority to accept service as aforesaid;
 - (b) agrees that failure by any such person to give notice of such service of process to BATCAP or BATNF, as the case may be, shall not impair the validity of such service or of any judgment based thereon; and
 - (c) agrees that nothing in this Trust Deed shall affect the right to serve process in any other manner permitted by law.

21. WAIVER OF TRIAL BY JURY

Each party waives any right it may have to a jury trial or any claim or cause of action in connection with this Deed or any transaction contemplated by this Deed. This Deed may be filed as a written consent to trial by court.

22. COUNTERPARTS

This Deed and any trust deed supplemental hereto may be executed and delivered in any number of counterparts, all of which, taken together, shall constitute one and the same deed and any party to this Deed or any trust deed supplemental hereto may enter into the same by executing and delivering a counterpart.

23. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

A person who is not a party to this Trust Deed or any trust deed supplemental hereto has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Trust Deed or any trust deed supplemental hereto, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

IN WITNESS whereof this Deed has been executed as a deed by BATCAP, BATIF, BATNF, British American Tobacco and the Trustee and delivered on the date first stated on page 1.

TERMS AND CONDITIONS OF THE NOTES

This Note is one of a Series (as defined below) of Notes issued by B.A.T. International Finance p.l.c. (“**BATIF**”), B.A.T. Netherlands Finance B.V. (“**BATNF**”) or B.A.T Capital Corporation (“**BATCAP**”) as indicated in the applicable Final Terms (each in its capacity as the issuer of the Notes, the “**Issuers**” and, together with the other in its capacity as issuer of other notes, the “**Issuers**”) constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the “**Trust Deed**”) dated 6 July 1998 made between, *inter alios*, each of BATIF, BATNF and BATCAP as an Issuer, and where it is not the Issuer of the Notes, as guarantor of notes issued by the other Issuers, British American Tobacco p.l.c. (“**British American Tobacco**”) as a guarantor and The Law Debenture Trust Corporation p.l.c. (the “**Trustee**”, which expression shall include any successor as trustee). Each of BATIF, BATNF, BATCAP and British American Tobacco in its capacity as a guarantor is herein referred to as a “**Guarantor**” and all together in such capacities are herein referred to as the “**Guarantors**”. The Issuer and the Guarantors in relation to the Notes are specified in the applicable Final Terms (as defined below) and such expressions shall be construed accordingly.

References herein to the “**Notes**” shall be references to the Notes of this Series and shall mean:

- (i) in relation to any Notes represented by a global Note (a “**Global Note**”), units of each Specified Denomination in the Specified Currency;
- (ii) any Global Note; and
- (iii) any definitive Notes issued in exchange for a Global Note.

The Notes and the Coupons (as defined below) have the benefit of an amended and restated Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) dated 1 May 2019 and made between the same parties as are parties to the Trust Deed, Citibank, N.A., London Branch as issuing and principal paying agent and agent bank (the “**Agent**”, which expression shall include any successor agent) and the other paying agent named therein (together with the Agent, the “**Paying Agents**”, which expression shall include any additional or successor paying agent).

Interest bearing definitive Notes (unless otherwise indicated in the applicable Final Terms) have interest coupons (“**Coupons**”) and, if indicated in the applicable Final Terms, talons for further Coupons (“**Talons**”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Global Notes do not have Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, complete these Terms and Conditions for the purposes of this Note. References to the “**applicable Final Terms**” are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

The Trustee acts for the benefit of the holders for the time being of the Notes (the “**Noteholders**”, which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below) and the holders of the Coupons (the “**Couponholders**”, which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

As used herein, “**Tranche**” means Notes which are identical in all respects (including as to listing and admission to trading) and “**Series**” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series with an existing Tranche of Notes; and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed, the Agency Agreement and the applicable Final Terms are available for inspection during normal business hours at the registered office for the time being of the Trustee (being at the date of this Base Prospectus at Fifth Floor, 100 Wood Street, London EC2V 7EX) and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions contained in the Trust Deed.

Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail and, in the event of inconsistency between the Agency Agreement or the Trust Deed and the applicable Final Terms, the applicable Final Terms will prevail.

In the Conditions, “euro” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

1 Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s) specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Definitive Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions, the Trust Deed and the Agency Agreement are not applicable.

Subject as set out below, title to the Notes and Coupons will pass by delivery. The Issuer, the Guarantors and any Paying Agent will (except as otherwise required by law) deem and treat the bearer of any Note or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (“Euroclear”) and/or Clearstream Banking S.A. (“Clearstream, Luxembourg”), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantors and the Paying Agents as the holder of such nominal amount of such Notes for all purposes, other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, the Guarantors and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms, or as may otherwise be approved by the Issuer, the Guarantors, the Agent and the Trustee.

2 Status of the Notes and the Guarantee

(a) Status of the Notes

The Notes and Coupons constitute direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and rank and will rank *pari passu* and without any preference among themselves and (subject as aforesaid and save to the extent that laws affecting creditors' rights generally in a bankruptcy or winding up may give preference to any of such other obligations) equally with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.

(b) Status of the Guarantee

The payment of principal of, and interest on, the Notes together with all other amounts payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably and jointly and severally guaranteed in the Trust Deed by the Guarantors (other than the Issuer).

The obligations of each Guarantor under its guarantee constitute direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the relevant Guarantor and (subject as aforesaid and save to the extent that laws affecting creditors' rights generally in a bankruptcy or winding up may give preference to any of such other obligations) rank and will rank equally with all other unsecured and unsubordinated obligations of the relevant Guarantor from time to time outstanding.

The Trust Deed contains a covenant on the part of the Issuers and the Guarantors in the event that any other company, the share capital of which is or is to be admitted to the official list of the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 (the "**Official List**") and admitted to trading on the London Stock Exchange plc's Regulated Market (the "**Market**"), becomes the ultimate Holding Company of British American Tobacco, to procure that such other Holding Company shall become a guarantor under the Trust Deed, jointly and severally with the Guarantors, with effect from the later of (i) the date on which such other company becomes the ultimate Holding Company of British American Tobacco and (ii) the date on which the share capital of such other Holding Company is admitted to the Official List and admitted to trading on the Market. In such event, the term "**Guarantors**" herein shall be deemed to include such other Holding Company.

3 Negative Pledge

So long as any of the Notes remains outstanding (as defined in the Trust Deed) neither the Issuer nor any Guarantor will secure or allow to be secured any Quoted Borrowing or any payment under any guarantee by any of them of any Quoted Borrowing by any mortgage, charge, pledge or lien (other than arising by operation of law) upon any of its undertaking or assets, whether present or future, unless at the same time the same mortgage, charge, pledge or lien is extended, or security which is in the opinion of the Trustee not materially less beneficial to the Noteholders than the security given as aforesaid or which shall be approved by Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders is extended, or (as the case may be) created, in favour of the Trustee to secure equally and rateably the principal of, and interest on, and all other payments (if any) in respect of the Notes and under the Trust Deed.

For the purposes of this Condition 3, "**Quoted Borrowing**" means any indebtedness which (a) is represented by notes, debentures or other securities issued otherwise than to constitute or represent advances made by banks and/or other lending institutions; (b) is denominated, or confers any right to payment of principal and/or interest, in or by reference to any currency other than the currency of the country in which the issuer of the indebtedness has its principal place of business or is denominated, or confers any right to payment of principal and/or interest, in or by reference to the currency of such country but is placed or offered for

subscription or sale by or on behalf of, or by agreement with, the issuer of such indebtedness as to over 20 per cent. outside such country; and (c) at its date of issue is, or is intended by the issuer of such indebtedness to become, quoted, listed, traded or dealt in on any stock exchange or other organised and regulated securities market in any part of the world.

4 Interest

(a) *Interest on Fixed Rate Notes*

The applicable Final Terms contains provisions applicable to the determination of fixed rate interest and must be read in conjunction with this Condition 4(a) for full information on the manner in which interest is calculated on Fixed Rate Notes. In particular, the applicable Final Terms will specify, as applicable, the Interest Commencement Date, the Rate(s) of Interest, the Interest Payment Date(s), the Maturity Date, the Fixed Coupon Amount, any applicable Broken Amount, the Calculation Amount, the Day Count Fraction and any applicable Determination Date.

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as otherwise provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount (if any) specified in the applicable Final Terms. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding amount of the Fixed Rate Notes represented by such Global Note; or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and in each case, multiplying such sum by the applicable Day Count Fraction.

The resultant figure (including after application of any Fixed Coupon Amount or Broken Amount to the Calculation Amount in the case of Fixed Rate Notes in definitive form) shall be rounded to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

“**Day Count Fraction**” means in respect of the calculation of an amount of interest in accordance with Condition 4(a):

- (i) if “**Actual/Actual (ICMA)**” is specified in the applicable Final Terms:
 - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the “**Accrual Period**”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates that would occur in one calendar year; or

- (B) in the case of Notes where the Accrual Period is longer than the Determination Period commencing on the last Interest Payment Date (or, if none, the Interest Commencement Date), the sum of:
- (1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in one calendar year; and
 - (2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in one calendar year;
- (ii) if “**30/360**” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of 12 30-day months) divided by 360; and
- (iii) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date divided by 365.

In these Terms and Conditions:

“**Determination Period**” means the period from (and including) a Determination Date to (but excluding) the next Determination Date.

“**sub-unit**” means, with respect to any currency other than Euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Euro, means one cent.

(b) *Interest on Floating Rate Notes*

The applicable Final Terms contains provisions applicable to the determination of floating rate interest and must be read in conjunction with this Condition 4(b) for full information on the manner in which interest is calculated on Floating Rate Notes. In particular, the applicable Final Terms will identify, as applicable, any Specified Interest Payment Dates, any Specified Period, the Interest Commencement Date, the Business Day Convention, any Additional Business Centres, whether ISDA Determination or Screen Rate Determination applies to the calculation of interest, the party who will calculate the amount of interest due if it is not the Agent, the Margin, any maximum or minimum interest rates and the Day Count Fraction. Where ISDA Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Floating Rate Option, Designated Maturity and Reset Date. Where Screen Rate Determination applies to the calculation of interest, the applicable Final Terms will also specify the applicable Reference Rate, Interest Determination Date(s) and Relevant Screen Page.

(i) *Interest Payment Dates*

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an “**Interest Payment Date**”) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each “**Interest Period**” (which expression shall, in these Terms and Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date) or the relevant payment date if the Floating Rate Notes become payable on a date other than an Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 4(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month in which the Specified Period falls after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In this Condition, “**Business Day**” means a day (other than a Saturday or a Sunday) which is both:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London and each Additional Business Centre (if any) specified in the applicable Final Terms; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in Euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007, or any successor thereto (the “**TARGET System**”) is operating.

(ii) *Rate of Interest*

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the applicable Final Terms.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as amended and updated as at the Issue Date of the first Tranche of the Notes and as published by the International Swaps and Derivatives Association, Inc. (the “**ISDA Definitions**”) and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on the London inter-bank offered rate (“**LIBOR**”) or on the euro-zone interbank offered rate (“**EURIBOR**”) for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), (i) “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**euro-zone**” have the meanings given to those terms in the ISDA Definitions and (ii) the definition of “**Banking Day**” in the ISDA Definitions shall be amended to insert after the words “are open for” in the second line thereof the word “general”.

(B) *Screen Rate Determination for Floating Rate Notes*

- (1) Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:
 - (I) the offered quotation; or
 - (II) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate(s) which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations;
- (2) If the Relevant Screen Page is not available or, if in the case of sub-paragraph (B)(1)(I) above, no such offered quotation appears or, in the case of sub-paragraph (B)(1)(II) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph the Agent shall

request each of the several banks initially appointed as reference banks in relation to the Notes of any relevant Series and/or, if applicable, any Successor reference banks in relation thereto such banks being, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal euro-zone office of four major banks in the euro-zone inter-bank market, in each case selected by the Issuer or as specified in the applicable Final Terms (each a “**Reference Bank**”, and together the “**Reference Banks**”) to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent; and

- (3) If on any Interest Determination Date one only or none of the Reference Banks provides the Agent with such offered quotations as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the relevant Issuer suitable for such purpose) informs the Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(C) *Benchmark Discontinuation*

(1) Independent Adviser

Notwithstanding Conditions 4(b)(ii)(B)(2) and (3), if the Issuer determines that a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to advise the Issuer in determining a Successor Rate, failing which an Alternative Rate (in accordance with Condition 4(b)(ii)(C)(2)) and, in either case, an Adjustment Spread (in accordance with and subject to Condition 4(b)(ii)(C)(3)) and any Benchmark Amendments (in accordance with Condition 4(b)(ii)(C)(4)).

In advising the Issuer, the Independent Adviser appointed pursuant to this Condition 4(b)(ii)(C) shall act in good faith as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Trustee, the Paying Agents, the Noteholders or the Couponholders for any determination made by it or for any advice given to the Issuer in connection with any determination made by the Issuer pursuant to this Condition 4(b)(ii)(C).

If, following the occurrence of a Benchmark Event (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Issuer fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 4(b)(ii)(C), in each case prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the determination of the Rate of Interest applicable to the next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 4(b)(ii)(C).

(2) Successor Rate or Alternative Rate

If the Issuer, following consultation with the Independent Adviser, determines that:

- (I) there is a Successor Rate, then such Successor Rate and (subject to Condition 4(b)(ii)(C)(3)) the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all relevant future payments of interest on the Notes (subject to the subsequent operation of this Condition 4(b)(ii)(C)); or
- (II) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and (subject to Condition 4(b)(ii)(C)(3)) the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all relevant future payments of interest on the Notes (subject to the subsequent operation of this Condition 4(b)(ii)(C)).

(3) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied (subject to the proviso in the following sentence) to the Successor Rate or the Alternative Rate (as the case may be). If the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread.

(4) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case (subject to Condition 4(b)(ii)(C)(3)), the applicable Adjustment Spread is determined in accordance with this Condition 4(b)(ii)(C) and the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines (a) that amendments to these Conditions, the Agency Agreement and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the “**Benchmark Amendments**”) and (b) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 4(b)(ii)(C)(5), without any requirement for the consent or approval of Noteholders, vary these Conditions, the Agency Agreement and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by an authorised signatory of the Issuer pursuant to Condition 4(b)(ii)(C)(5), the Trustee shall (at the request and expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a supplement to or document amending the Trust Deed and/or the Agency Agreement) and the Trustee shall not be liable to any party for any consequence thereof, provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the rights and/or the protective provisions afforded to the Trustee in these Conditions, the Agency Agreement or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed or supplemental agency agreement) in any way.

In connection with any such variation in accordance with this Condition 4(b)(ii)(C)(4), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(5) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 4(b)(ii)(C) will be notified promptly by the Issuer to the Trustee, the Agent and, in accordance with Condition 13, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by an authorised signatory of the Issuer:

- (I) confirming (a) that a Benchmark Event has occurred, (b) the Successor Rate or, as the case may be, the Alternative Rate, (c) the applicable Adjustment Spread and (d) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 4(b)(ii)(C); and
- (II) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

The Trustee shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Agents, the Noteholders and the Couponholders.

(6) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 4(b)(ii)(C)(1), (2), (3) and (4), the Original Reference Rate and the fallback provisions provided for in Condition 4(b)(ii)(B) and Clause 9.2 of the Agency Agreement will continue to apply unless and until a Benchmark Event has occurred and the Trustee and the Agents have been notified of the Successor Rate or the Alternative Rate (as the case may be) and the Adjustment Spread (if applicable) and any Benchmark Amendments in accordance with this Condition 4(b)(ii)(C).

(7) Definitions

As used in this Condition 4(b)(ii)(C):

“**Adjustment Spread**” means either (a) a spread (which may be positive, negative or zero), or (b) a formula or methodology for calculating a spread, in each case to be applied (subject to Condition 4(b)(ii)(C)(3)) to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (I) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body;
- (II) if no such recommendation has been made, or in the case of an Alternative Rate, the Issuer, following consultation with the Independent Adviser, determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate;
- (III) if neither (I) nor (II) above applies, the Issuer, following consultation with the Independent Adviser, determines, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

“**Alternative Rate**” means an alternative benchmark or screen rate which the Issuer, following consultation with the Independent Adviser, determines in

accordance with Condition 4(b)(ii)(C)(2) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) for an interest period of comparable duration and in the same Specified Currency as the Notes or, if the Issuer (following consultation with the Independent Adviser) determines that there is no such rate, such other rate as the Issuer, following consultation with the Independent Adviser and acting in good faith and in a commercially reasonable manner, determines in its discretion is most comparable to the relevant Original Reference Rate.

“**Benchmark Amendments**” has the meaning given to it in Condition 4(b)(ii)(C)(4).

“**Benchmark Event**” means:

- (I) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or
- (II) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (III) a public statement by the supervisor of the administrator of the Original Reference Rate that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or
- (IV) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes; or
- (V) a public statement by the supervisor of the administrator of the relevant Original Reference Rate that, in the view of such supervisor, such Original Reference Rate is no longer representative of an underlying market; or
- (VI) it has become unlawful for any Agent or the Issuer to calculate any payments due to be made to any Noteholder using the Original Reference Rate,

provided that the Benchmark Event shall be deemed to occur (a) in the case of sub-paragraphs (II) and (III) above, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be, (b) in the case of sub-paragraph (IV) above, on the date of the prohibition of use of the Original Reference Rate and (c) in the case of sub-paragraph (V) above, on the date with effect from which the Original Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

“**Independent Adviser**” means an independent financial institution of international repute or an independent financial adviser, in each case, with appropriate expertise in capital markets appointed by the Issuer at its own expense under Condition 4(b)(ii)(C)(1) and notified in writing to the Trustee.

“**Original Reference Rate**” means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes.

“**Relevant Nominating Body**” means, in respect of a benchmark or screen rate (as applicable):

- (I) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (II) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof.

“**Successor Rate**” means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(D) *Linear Interpolation*

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period, provided however, that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

“**Applicable Maturity**” means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(iii) *Minimum Rate of Interest and/or Maximum Rate of Interest*

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) *Determination of Rate of Interest and calculation of Interest Amounts*

The Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the “**Interest Amount**”) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
- (B) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest for any Interest Period:

- (A) if “**Actual/Actual**” or “**Actual/Actual (ISDA)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if “**Actual/365 (Fixed)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if “**Actual/360**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (D) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as number, in which the day immediately following the last day included in the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (E) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30

- (F) if “**30E/360 (ISDA)**” is specified hereon, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Interest Period falls;

“D1” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30; and

(G) if “**Actual/365 (Sterling)**” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366.

(v) *Notification of Rate of Interest and Interest Amounts*

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to trading (if the rules of that stock exchange or other relevant authority so require) and notice thereof to be published in accordance with Condition 13 as soon as possible after their determination but in no event later than (a) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such stock exchange of a Rate of Interest and Interest Amount, or (b) in all other cases, the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to trading (if the rules of that stock exchange or other relevant authority so require) and to the Noteholders in accordance with Condition 13. For the purposes of this paragraph, the expression “**London Business Day**” means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

(vi) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(b), by the Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantors, the Agent, the other Paying Agents, the Trustee and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantors, the Noteholders or the Couponholders shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) *Accrual of interest*

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

5 Payments

(a) *Method of payment*

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7.

(b) *Presentation of definitive Notes and Coupons*

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)).

Fixed Rate Notes in definitive form should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 7) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 8) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Where any definitive Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any definitive Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

(c) *Payments in respect of Global Notes*

Payments of principal and interest (if any) in respect of Notes represented by any Global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes and otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Global Note by the Paying Agent to which it was presented and such record shall be prima facie evidence that the payment in question has been made.

(d) *General provisions applicable to payments*

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer or, as the case may be, any Guarantor will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or, as the case may be, any Guarantor to, or to the order of, the holder of such Global Note.

Notwithstanding the provisions of paragraph (a) above, if any amount of principal and/or interest in respect of Notes is payable in US dollars, such US dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

- (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in US dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in US dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Issuer and the Guarantors, adverse tax consequences to the Issuer or the Guarantors.

(e) *Payment Day*

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day (other than a Saturday or a Sunday) which (subject to Condition 8) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in:
 - (A) in the case of definitive Notes only, the relevant place of presentation;
 - (B) each Additional Financial Centre (if any) specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (2) in relation to any sum payable in euro, a day on which the TARGET System is operating.

(f) Interpretation of principal and interest

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 7 or pursuant to any undertaking or covenant to pay additional amounts given in addition thereto, or in substitution therefor, pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) the Clean-Up Redemption Amount (if any) of the Notes; and
- (vi) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 or pursuant to any undertaking or covenant to pay additional amounts given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

6 Redemption and Purchase

(a) Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

(b) Redemption for tax reasons

(i) Where the Issuer is BATIF

(A) The provisions of this paragraph shall only apply where the Issuer is BATIF.

(B) The Notes may be redeemed in whole but not in part, at the option of the Issuer, at any time or, if the Notes are Floating Rate Notes, on any Interest Payment Date, upon not more than 30 nor less than 10 days' (or, in each case, such other number of days as specified in the applicable Final Terms) prior notice given in accordance with Condition 13 (which notice will be irrevocable), at their Early Redemption Amount referred to in paragraph (f) below, together, if applicable, with interest accrued to (but excluding) the date fixed for redemption, if the Issuer satisfies the Trustee that, as a result of any amendment to, or change in, the laws or regulations of the United Kingdom or any political subdivision or taxing authority thereof or therein affecting taxation, or any amendment to or change in an official application or interpretation of such laws or regulations, which amendment or change becomes effective on or after the Issue Date of the first Tranche of the Notes, the Issuer will become obliged to pay any Additional Amounts pursuant to Condition 7(a) on the next succeeding Interest Payment Date in respect of the Notes; provided, however, that (1) no such notice of redemption will be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Notes then due and (2) at the time such notice of redemption is given, such obligation to pay such Additional Amounts remains in effect. Immediately prior to the publication of any notice of redemption pursuant to this paragraph (b)(i) the Issuer will deliver to the Trustee a certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the same in which event it shall be conclusive and binding on the Noteholders and the Couponholders. Upon the expiry of any notice of redemption pursuant to this paragraph (b)(i), the Issuer shall be bound to redeem the Notes as provided herein.

(ii) Where the Issuer is BATCAP

(A) The provisions of this paragraph shall only apply where the Issuer is BATCAP.

(B) The Notes may be redeemed in whole but not in part, at the option of the Issuer, at any time or, if the Notes are Floating Rate Notes, on any Interest Payment Date, upon not more than 30 nor less than 10 days' (or, in each case, such other number of days as specified in the applicable Final Terms) prior notice given in accordance with Condition 13 (which notice will be irrevocable), at their Early Redemption Amount referred to in paragraph (f) below, together, if applicable, with interest accrued to (but excluding) the date fixed for redemption, if the Issuer satisfies the Trustee that, as a result of any amendment to, or change in, the laws or regulations of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, or any amendment to or change in an official application or interpretation of such laws or regulations, which amendment or change becomes effective on or after the Issue Date of the first Tranche of the Notes, the Issuer will become obliged to pay any Additional Amounts pursuant to Condition 7(b) on the next succeeding Interest Payment Date in respect of the Notes; provided, however, that (1) no such notice of redemption will be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts in respect of the Notes were a payment in respect of the Notes then due and (2) at the time such notice of redemption is given, such obligation to pay such Additional Amounts remains in effect. Immediately prior to the publication of any notice of redemption pursuant to this paragraph (b)(ii) the Issuer will deliver to the Trustee a certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the same in which event it shall be conclusive and binding on the Noteholders and the Couponholders. Upon the expiry of any notice of redemption pursuant to this paragraph (b)(ii), the Issuer shall be bound to redeem the Notes as provided herein.

(iii) Where the Issuer is BATNF

(A) The provisions of this paragraph shall only apply where the Issuer is BATNF.

(B) The Notes may be redeemed in whole but not in part, at the option of the Issuer, at any time or, if the Notes are Floating Rate Notes, on any Interest Payment Date, upon not more than 30 nor less than 10 days' (or, in each case, such other number of days as specified in the applicable Final Terms) prior notice given in accordance with Condition 13 (which notice will be irrevocable), at their Early Redemption Amount referred to in paragraph (f) below, together, if applicable, with interest accrued to (but excluding) the date fixed for redemption, if, as a result of any amendment to, or change in, the laws or regulations of The Netherlands or any political subdivision or taxing authority thereof or therein affecting taxation, or any amendment to or change in an official application or interpretation of such laws or regulations, which amendment or change becomes effective on or after the Issue Date of the first Tranche of the Notes, the Issuer will become obliged to pay any Additional Amounts pursuant to Condition 7(c) on the next succeeding Interest Payment Date in respect of the Notes; provided, however, that (1) no such notice of redemption will be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Notes then due and (2) at the time such notice of redemption is given, such obligation to pay such Additional Amounts remains in effect. Immediately prior to

the publication of any notice of redemption pursuant to this paragraph (b)(iii) the Issuer will deliver to the Trustee a certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the same in which event it shall be conclusive and binding on the Noteholders and the Couponholders. Upon the expiry of any notice of redemption pursuant to this paragraph (b)(iii), the Issuer shall be bound to redeem the Notes as provided herein.

(c) *Redemption at the option of the Issuer (Issuer Call)*

This Condition 6(c) applies to Notes which are subject to redemption prior to the Maturity Date at the option of the Issuer (other than for taxation reasons), such option being referred to as an “**Issuer Call**”. The applicable Final Terms contains provisions applicable to any Issuer Call and must be read in conjunction with this Condition 6(c) for full information on any Issuer Call. In particular, the applicable Final Terms will identify, as applicable, the Optional Redemption Date(s), the Optional Redemption Amount (or, if applicable, that the Optional Redemption Amount(s) applicable to any Optional Redemption Date will be the Make-whole Amount), any minimum or maximum amount of Notes which can be redeemed and the applicable notice periods.

If Issuer Call is specified in the applicable Final Terms, the Issuer may (save in respect of any Notes in respect of which a Put Notice has been given pursuant to Condition 6(e)), having given:

- (i) not less than 10 nor more than 30 days’ (or, in each case, such other number of days as specified in the applicable Final Terms) notice to the Noteholders in accordance with Condition 13; and
- (ii) not less than 10 days (or such shorter notice as such party shall accept) before the giving of the notice referred to in (i), notice to the Agent and the Trustee,

(which notices shall be irrevocable (other than in the circumstances set out below) and shall specify the date fixed for redemption) redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) applicable to such Optional Redemption Date together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such notice of redemption may, at the Issuer’s discretion, be subject to one or more conditions precedent, in which case such notice shall state that, in the Issuer’s discretion, the Optional Redemption Date may be delayed until such time as any or all such conditions shall be satisfied (or waived by the Issuer in its sole discretion), or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied (or waived by the Issuer in its sole discretion) by the Optional Redemption Date, or by the Optional Redemption Date so delayed. In the case of a partial redemption of Notes, the Notes to be redeemed (“**Redeemed Notes**”) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/ or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “**Selection Date**”). Any such partial redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as specified in the applicable Final Terms. In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 14 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 13 at least five days prior to the Selection Date.

If, in respect of any Optional Redemption Date, Make-whole Amount is specified in the applicable Final Terms as the Optional Redemption Amount, the Optional Redemption Amount per Note shall be equal to the higher of the following:

- (i) the nominal amount of the relevant Note; and
- (ii) the nominal amount of the relevant Note multiplied by the price (as reported in writing to the Issuer and the Trustee by the Determination Agent) expressed as a percentage (rounded to five decimal places, with 0.000005 being rounded upwards) at which the Gross Redemption Yield on the Notes on the Determination Date specified in the applicable Final Terms is equal to (A) the Gross Redemption Yield at the Quotation Time specified in the applicable Final Terms on the Determination Date of the Reference Bond specified in the applicable Final Terms (or, where the Determination Agent advises the Issuer and the Trustee that, for reasons of illiquidity or otherwise, such Reference Bond is not appropriate for such purpose, such other government stock as the Determination Agent may recommend) plus (B) any applicable Redemption Margin specified in the applicable Final Terms.

Any notice of redemption given under Condition 6(e) will override any notice of redemption given (whether previously, on the same date or subsequently) under this Condition 6(c).

In this Condition:

“**Determination Agent**” means the Agent (or any successor financial adviser appointed by the Issuer for the purpose of determining the Make-whole Amount); and

“**Gross Redemption Yield**” means a yield calculated in accordance with generally accepted market practice at such time, as advised to the Issuer and the Trustee by the Determination Agent.

(d) *Clean-Up Call Option*

If Clean-Up Call is specified in the applicable Final Terms and 80 per cent. or more in nominal amount of the Notes originally issued (which shall for this purpose include any further Notes issued pursuant to Condition 15) have been redeemed or purchased and cancelled, the Issuer may, having given:

- (i) not less than 10 nor more than 30 days’ (or, in each case, such other number of days as specified in the applicable Final Terms) notice to the Noteholders in accordance with Condition 13; and
- (ii) not less than 10 days (or such shorter notice as such party shall accept) before the giving of the notice referred to in (i), notice to the Agent and the Trustee,

(which notice shall be irrevocable and shall specify the date fixed for redemption) redeem or, at the Issuer’s option, purchase (or procure the purchase of) on any Interest Payment Date (if the relevant Note is a Floating Rate Note) or at any time (if the relevant Note is not a Floating Rate Note), all but not some only of the Notes then outstanding at the Clean-Up Redemption Amount specified in the applicable Final Terms together with interest accrued (if any) to (but excluding) the date fixed for redemption.

(e) *Redemption at the option of the Noteholders (Investor Put)*

This Condition 6(e) applies to Notes which are subject to redemption prior to the Maturity Date at the option of the Noteholder, such option being referred to as an “**Investor Put**”. The applicable Final Terms contains provisions applicable to any Investor Put and must be read in conjunction with this Condition 6(e) for full information on any Investor Put. In particular, the applicable Final Terms will identify the Optional Redemption Date(s), the Optional Redemption Amount and the applicable notice periods.

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 13 not less than 10 nor more than 30 days’ (or, in each case, such

other number of days as specified in the applicable Final Terms) notice (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, in whole (but not in part), such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of a Note the holder of this Note must, if the relevant Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a “**Put Notice**”) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by the relevant Note or evidence satisfactory to the Paying Agent concerned that such Note will, following delivery of the Put Notice, be held to its order or under its control. If a Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of such Note the holder must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary or common safekeeper, as the case may be, for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and, if the relevant Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Agent for notation accordingly.

(f) *Early Redemption Amounts*

For the purpose of paragraph (b) above and Condition 9, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of Notes with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (ii) in the case of Notes (other than Zero Coupon Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at their nominal amount; or
- (iii) in the case of Zero Coupon Notes, at their Early Redemption Amount equal to the sum of:
 - (A) the Reference Price; and
 - (B) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Notes become due and repayable.

Where such calculation is to be made for a period which is not a whole number of years, it shall be made (i) in the case of a Zero Coupon Note payable in a Specified Currency other than Sterling, on the basis of a 360-day year consisting of 12 months of 30 days each or (ii) in the case of a Zero Coupon Note payable in Sterling, on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed falls in a leap year, the sum of (x) the number of those days falling in a leap year divided by 366 and (y) the number of those days falling in a non-leap year divided by 365).

(g) *Purchases*

The Issuer, the Guarantors or any other subsidiary (as defined in the Trust Deed) of the Issuer or any Guarantor may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the

open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or, at the option of the Issuer or the relevant Guarantor, surrendered to any Paying Agent for cancellation.

(h) *Cancellation*

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to paragraph (g) above (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(i) *Late payment on Zero Coupon Notes*

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c), (d) or (e) above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (f)(iii) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (ii) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Note has been received by the Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 13.

7 Taxation

(a) *Where the Issuer is BATIF*

- (1) The provisions of this paragraph shall only apply where the Issuer is BATIF.
- (2) All payments of principal and interest by the Issuer or any Guarantor will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges (together, "**Taxes**") of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority thereof or therein having power to levy the same unless such withholding or deduction is required by law. In that event, the Issuer or the relevant Guarantor (as the case may be) shall pay such amounts (the "**Additional Amounts**") as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such Taxes been required to be withheld or deducted; provided that no such Additional Amounts will be payable in respect of Notes or Coupons:
 - (i) presented for payment by or on behalf of a Noteholder or Couponholder who is liable for such withheld or deducted Taxes by reason of his having some connection with the United Kingdom other than the mere holding of a Note or Coupon; or
 - (ii) to, or to a third party on behalf of, a holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom, unless such holder proves that he is not entitled so to comply or to make such declaration or claim; or
 - (iii) presented for payment in the United Kingdom; or

- (iv) presented for payment more than 30 days after the Relevant Date except to the extent that a Noteholder or Couponholder would have been entitled to payment of such Additional Amounts if he had presented his Note or Coupon for payment on the thirtieth day after the Relevant Date.

(b) *Where the Issuer is BATCAP*

- (1) The provisions of this paragraph shall only apply where the Issuer is BATCAP.
- (2) All payments of principal and interest by the Issuer or any Guarantor will be made without withholding or deduction for or on account of any Taxes of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United States or any political subdivision thereof or any authority thereof or therein having power to levy the same unless such withholding or deduction is required by law. In that event, the Issuer or the relevant Guarantor (as the case may be) shall pay such Additional Amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such Taxes been required to be withheld or deducted; provided that the foregoing obligations shall not apply to:
 - (i) any such Taxes which would not have been so imposed but for (i) the existence of any present or former connection between the holder (or between a fiduciary, settlor, beneficiary, member or shareholder of or possessor of a power over such holder, if such holder is an estate, a trust, a partnership or a corporation) and the United States, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member, shareholder or possessor) being or having been a citizen or resident thereof, or being or having been engaged in a trade or business therein or being or having been present therein, or having or having had a permanent establishment therein, or (ii) such holder's present or former status as a personal holding company, passive foreign investment company, controlled foreign corporation or private foundation or other tax-exempt organisation (in each case, for United States federal income tax purposes), or as a corporation which accumulates earnings to avoid United States federal income taxes;
 - (ii) any such Taxes which would not have been so imposed but for the presentation of a Note or Coupon for payment more than 30 days after the Relevant Date except to the extent that a Noteholder or Couponholder would have been entitled to payment of such Additional Amounts if he had presented his Note or Coupon for payment on the thirtieth day after the Relevant Date;
 - (iii) any estate, inheritance, gift, sales, transfer or personal property Taxes or any similar Taxes;
 - (iv) any such Taxes which would not have been imposed but for the failure to comply with certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connection with the United States of the holder of a Note or Coupon, if such compliance is required by statute, by regulation of the United States Treasury Department or by an applicable income tax treaty to which the United States is a party as a precondition to relief or exemption from such Taxes;
 - (v) any such Taxes which are payable otherwise than by deduction or withholding from payments in respect of a Note or Coupon;
 - (vi) any such Taxes imposed on interest received by a ten per cent. shareholder of the Issuer within the meaning of Section 871(h)(3)(B) or Section 881(c)(3)(B) of the United States Internal Revenue Code of 1986, as amended (the "**Code**") (or any amended or successor provisions);

- (vii) any such Taxes imposed by reason of a holder of a Note or Coupon being or having been a bank receiving payments on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business, as described in Section 881(c)(3)(A) of the Code (or any amended or successor provisions);
- (viii) any backup withholding imposed pursuant to Section 3406 of the Code (or any amended or successor provisions);
- (ix) any such Taxes imposed pursuant to Section 871(h)(6) or 881(c)(6) of the Code (or any amended or successor provisions); and
- (x) any combination of clauses (i) to (ix) above;

nor will any Additional Amounts be paid in respect of a Note or Coupon to any holder who is not a United States Alien or to any United States Alien who is a fiduciary or partnership or person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such Note or Coupon. The term “**United States Alien**” means any person who, for United States federal income tax purposes, is a foreign corporation, a non-resident alien individual, a non-resident alien fiduciary of a foreign estate or trust or a foreign partnership any partner of which is for United States federal income tax purposes a foreign corporation, a non-resident alien individual, a non-resident alien fiduciary of a foreign estate or trust or any such foreign partnership.

(c) *Where the Issuer is BATNF*

- (1) The provisions of this paragraph shall only apply where the Issuer is BATNF.
- (2) All payments of principal and interest by the Issuer or any Guarantor will be made without withholding or deduction for or on account of any Taxes of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of The Netherlands or any political subdivision thereof or any authority thereof or therein having power to levy the same unless such withholding or deduction is required by law. In that event, the Issuer or the relevant Guarantor (as the case may be) shall pay such Additional Amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such Taxes been required to be withheld or deducted; provided that no such Additional Amounts will be payable in respect of Notes or Coupons:
 - (i) presented for payment by or on behalf of a Noteholder or Couponholder who is liable for such withheld or deducted Taxes by reason of his having some connection with The Netherlands other than the mere holding of a Note or Coupon; or
 - (ii) to, or to a third party on behalf of, a holder if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non- residence or other similar claim for exemption to any authority of or in The Netherlands, unless such holder proves that he is not entitled so to comply or to make such declaration or claim; or
 - (iii) presented for payment in The Netherlands; or
 - (iv) presented for payment more than 30 days after the Relevant Date except to the extent that a Noteholder or Couponholder would have been entitled to payment of such Additional Amounts if he had presented his Note or Coupon for payment on the thirtieth day after the Relevant Date; or

- (v) to, or to another party on behalf of, a holder if such Additional Amounts are payable for or on account of any Taxes imposed or to be withheld in The Netherlands pursuant to the Dutch Withholding Tax Act 2021 (*Wet bronbelasting 2021*).
- (d) The Trust Deed contains provisions (*mutatis mutandis*) to those contained in paragraphs (a), (b) and (c) above in relation to the relevant taxing jurisdiction of each Guarantor.
- (e) Notwithstanding any other provision of these Terms and Conditions, any amounts to be paid on any Note or Coupon by or on behalf of the relevant Issuer will be paid net of any deduction or withholding imposed under Sections 1471 through 1474 of the Code (or any amended or successor provisions), including any regulations thereunder or official interpretations thereof, or required pursuant to an agreement described in Section 1471(b) of the Code or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation of any of the foregoing (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”). Neither the relevant Issuer nor any Guarantor nor any other person will be required to pay any Additional Amounts in respect of FATCA Withholding.
- (f) For the purpose of this Condition 7, “**Relevant Date**” means, in respect of any payment, the date on which such payment became due and payable or the date on which payment thereof was duly provided for, whichever occurs the later.

8 Prescription

The Notes and Coupons will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 7) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 5(b) or any Talon which would be void pursuant to Condition 5(b).

9 Events of Default

- (a) The Trustee at its discretion may, and if so requested in writing by Noteholders holding at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified to its satisfaction), (provided that, except in the case of the happening of any of the events mentioned in paragraph (i) below, the Trustee shall have certified in writing to the Issuer that, in its opinion, such event is materially prejudicial to the interests of the Noteholders) give notice to the Issuer that the Notes are, and they shall thereupon immediately become, due and repayable at their Early Redemption Amount referred to in Condition 6(f), together with accrued interest as provided in the Trust Deed, if any of the following events occurs and is continuing (each, an “**Event of Default**”):
 - (i) default is made for a period of seven days or more in the payment on the due date of any principal on the Notes or any of them or for a period of 14 days or more in the payment of any interest due in respect of the Notes or any of them; or
 - (ii) default is made by the Issuer or any Guarantor in the performance or observance of any covenant or provision binding on it under or pursuant to the Trust Deed or the Notes (other than a covenant for the payment of principal or interest due on or in respect of the Notes) and (except where the Trustee considers such default to be incapable of remedy when no notice as is referred to below is required, and for this purpose, something shall remain capable of remedy notwithstanding that it was required to have been previously done) such default continues on the thirtieth day after service by the Trustee on the Issuer or, as the case may be, the relevant Guarantor of written notice requiring the same to be remedied (or such later date as the Trustee may permit); or

- (iii) any other Borrowed Moneys Indebtedness (as defined below) of either the Issuer or any Guarantor becomes due and repayable by reason of any event of default (howsoever described) prior to its stated date of payment or any other Borrowed Moneys Indebtedness of either the Issuer or any Guarantor is not paid within the longer of seven days of its due date or any applicable grace period therefor (and for such purpose there shall be deemed to be a grace period of not less than seven days in respect of any obligation under any guarantee or indemnity or otherwise as surety), provided that no such event shall constitute an Event of Default unless the Borrowed Moneys Indebtedness either (a) in any particular case amounts to at least £50,000,000 or the equivalent thereof in any other currency, or (b) when aggregated with other Borrowed Moneys Indebtedness then so due and repayable or not so paid amounts to at least £200,000,000 or the equivalent thereof in any other currency; or
 - (iv) where the Issuer or any Guarantor is incorporated in England and Wales:
 - (A) an order is made or an effective resolution is passed for the winding-up of the Issuer or a relevant Guarantor, or any similar action is taken in any other jurisdiction; or
 - (B) a distress or execution or other legal process is levied or enforced against or an encumbrancer takes possession of or a receiver, administrative receiver or other similar officer is appointed of the whole or a part of its assets which is substantial in relation to the Group (as defined below) taken as a whole and is not discharged, stayed, removed or paid out within 45 days after such execution or appointment; or
 - (C) an administration order is made in relation to the Issuer or a relevant Guarantor which is not discharged, stayed or removed within 45 days of such order being made; or
 - (v) where the Issuer or the relevant Guarantor is BATCAP:
 - (A) a decree or order by a court having jurisdiction is entered adjudging BATCAP a bankrupt or insolvent, or approving as properly filed a petition seeking reorganisation of BATCAP under the United States Bankruptcy Code or any other similar federal or state applicable law, and such decree or order is continued undischarged and unstayed for a period of 45 days; or
 - (B) a decree or order of a court having jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of BATCAP is entered in respect of the whole of its property or a part thereof, which is substantial in relation to the Group taken as a whole, or for the winding-up or liquidation of its affairs, and such decree or order is continued and undischarged and unstayed for a period of 45 days; or
 - (C) BATCAP institutes proceedings to be adjudicated a voluntary bankrupt, or consents to the filing of a bankruptcy proceeding against it, or files a petition or answer or consent seeking reorganisation under the United States Bankruptcy Code or any other similar federal or state applicable law, or consents to the filing of any such petition, or consents to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of the whole of its property or a part thereof (which part is substantial in relation to the Group taken as a whole) or consents to the winding-up or liquidation of its affairs;
- (the terms used in this sub-paragraph (v) shall be construed as they would be in the context of a proceeding instituted and conducted pursuant to the United States Bankruptcy Code or any other similar Federal or state applicable law); or

- (vi) where the Issuer or the relevant Guarantor is BATNF:
 - (A) an order is made or an effective resolution is passed for the winding-up of BATNF or any similar action is taken in any other jurisdiction, including, without limitation, an application being made by BATNF for a ‘*surseance van betaling*’ (within the meaning of The Netherlands Bankruptcy Code (*Faillissementswet*)); or
 - (B) a distress or execution or other legal process is levied or enforced against or an encumbrancer takes possession of or a receiver, administrative receiver or other similar officer is appointed of the whole or a part of its assets which is substantial in relation to the Group taken as a whole and is not discharged, stayed, removed or paid out within 45 days after such execution or appointment; or
 - (C) an administration order is made in relation to BATNF which is not discharged, stayed or removed within 45 days of such order being made; or
- (vii) either the Issuer or any Guarantor:
 - (A) admits in writing its inability to pay its debts generally as they fall due or makes or enters into a general assignment or composition with or for the benefit of its creditors generally; or
 - (B) stops or threatens to stop payment of its obligations generally or ceases or threatens to cease to carry on its business (except in either case for the purposes of amalgamation, reconstruction or corporate reorganisation, the terms of which shall have been previously approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders); or
- (viii) for any reason whatsoever any guarantee ceases to be binding on and enforceable against the relevant Guarantor other than with the prior written consent of the Trustee or the sanction of an Extraordinary Resolution of the Noteholders.

For this purpose, “**Borrowed Moneys Indebtedness**” means, in relation to any person, any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent comprising or constituted by:

- (A) any liability to repay the principal of or to pay interest on borrowed money or deposits; or
- (B) any liability (i) under or pursuant to any (a) letter of credit, (b) acceptance credit facility or (c) note purchase facility; or (ii) in relation to (a) any foreign currency transaction or (b) any liability in respect of any purchase price for property or services payment of which is deferred for a period in excess of 180 days after the later of taking possession or becoming the legal owner thereof; or (iii) with regard to any guarantee or indemnity in respect of repayment of obligations as referred to in (i) and (ii) above or of any other borrowed money,

provided that nothing in Condition 9(a)(iv), (v), (vi) or (vii) shall apply to any matter or event resulting from or in connection with a disposal or divestiture of all or part of the interests in financial services businesses of the Group or any reconstruction, amalgamation or corporate reorganisation (or any similar action in any other jurisdiction), the terms of which shall have been approved by the Trustee in writing or by an Extraordinary Resolution of the Noteholders.

For the purposes of these Terms and Conditions, “**Group**” means British American Tobacco and its Subsidiaries together with its or their ultimate Holding Company (if any) (as defined in the Trust Deed) and any such ultimate Holding Company’s Subsidiaries.

- (b) At any time after the Notes become due and repayable pursuant to paragraph (a) of this Condition the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or any Guarantor as it may think fit to enforce payment of the Notes, but it shall not be bound to

take any such proceedings unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding and (ii) it shall have been indemnified to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer or any relevant Guarantor unless the Trustee, having become bound to proceed, fails to do so within a reasonable period and such failure is continuing.

10 Replacement of Notes, Coupons and Talons

Should any Note Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity the Issuer may reasonably require. Mutilated or defaced Notes Coupons or Talons must be surrendered before replacements will be issued.

11 Agents

The names of the initial Paying Agents and their initial specified offices are set out below.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (i) there will at all times be an Agent;
- (ii) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or any other relevant authority; and
- (iii) there will at all times be a Paying Agent with a specified office in a city approved by the Trustee in Western Europe outside the United Kingdom and The Netherlands.

In addition, the Issuer and the Guarantors shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 5(d). Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 13.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the Guarantors and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholders or Couponholders.

12 Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 8.

13 Notices

All notices regarding the Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or any other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or other relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange or other relevant authority. Any such notice shall be deemed to have been given to the holders of the Notes on the fourth day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

14 Meetings of Noteholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, any Guarantor or the Trustee and shall (subject to being indemnified to its satisfaction) be convened by the Trustee upon a request by Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or Coupons) the quorum shall be one or more persons holding or representing not less than three-fourths in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-fourth in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders. Notwithstanding the foregoing, a resolution in writing signed by persons holding or representing not less than 75 per cent. of the nominal amount of the Notes for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of the Noteholders duly convened and held in accordance with the provisions contained in the Trust Deed.

The Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such, which in any such case is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature, to correct a manifest error or to comply with mandatory provisions of applicable law. In addition, the Trustee shall be obliged to concur with the Issuer in effecting any Benchmark Amendments in the circumstances and as otherwise set out in Condition 4(b)(C)(4) without the consent of the Noteholders or the Couponholders.

The Trustee may also agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or Couponholders, to the substitution (i) in place of the Issuer as the principal debtor under the Notes and the Trust Deed of any Guarantor or any successor in business or Holding Company of any Guarantor or any other subsidiary of any Guarantor, such successor in business or such Holding Company provided that all payments in respect of the Notes continue to be unconditionally and irrevocably guaranteed by each Guarantor or the successor in business or Holding Company of each Guarantor in the manner provided in the Trust Deed (or, where a Guarantor or its successor in business or Holding Company is the new principal debtor, by the other Guarantors or their successors in business or Holding Companies); or (ii) in place of any Guarantor as guarantor of the Notes under the Trust Deed, of any successor in business or Holding Company of any Guarantor. In the case of any proposed substitution, the Trustee may agree, without the consent of the Noteholders or Couponholders, to a change of the law governing the Notes, the Coupons and/or the Trust Deed, provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders. Any such modification, waiver, authorisation, determination or substitution shall be binding on the Noteholders and the Couponholders and, unless the Trustee otherwise agrees, any such modification or substitution shall be notified to the Noteholders in accordance with Condition 13 as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, any Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

15 Further Issues

The Issuer shall be at liberty from time to time without the consent of the Noteholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes of other Series where the Trustee so decides.

16 Indemnification of the Trustee and its Contracting with the Issuer and the Guarantors

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and/or any Guarantor and/or any Subsidiaries of any of them and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any Guarantor and/or any Subsidiaries of any of them, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18 Governing Law and Submission to Jurisdiction

- (a) The Trust Deed, the Notes and the Coupons, and any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.
- (b) Each of the parties to the Trust Deed has in the Trust Deed irrevocably agreed that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with them) and that accordingly any suit, action or proceedings (together referred to as “**Proceedings**”) arising out of or in connection with the Trust Deed, the Notes and the Coupons (including any proceedings relating to any non-contractual obligations arising out of or in connection with them) may be brought in such courts.
- (c) Each of the parties to the Trust Deed has in the Trust Deed irrevocably and unconditionally waived any objection which it may have now or hereafter to the laying of the venue of any such Proceedings in any such court and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably and unconditionally agreed that a judgment in any such Proceedings brought in the English courts shall be conclusive and binding upon it and may be enforced in the courts of any other jurisdiction.
- (d) Nothing contained in this Condition shall limit any right to take Proceedings against any of the parties to the Trust Deed in any other court of competent jurisdiction (outside the Contracting States, as defined in Section 1(3) of the Civil Jurisdiction and Judgments Act 1982, as amended), nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.
- (e) Each of BATNF and BATCAP has in the Trust Deed appointed British American Tobacco at its registered office for the time being (being at the date of this Base Prospectus at Globe House, 4 Temple Place, London WC2R 2PG) as its agent for service of process, and undertaken that, in the event of British American Tobacco ceasing so to act or ceasing to be registered in England, each of BATNF and BATCAP will appoint another person as its agent for service of process in England in respect of any Proceedings.
- (f) Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

AGENT

Citibank, N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

OTHER PAYING AGENT

Banque Internationale à Luxembourg, *société anonyme*
69 route d'Esch
L-2953 Luxembourg

SCHEDULE 2

FORMS OF GLOBAL AND DEFINITIVE NOTES, COUPONS AND TALONS

PART 1

FORM OF GLOBAL NOTE

[ANY UNITED STATES PERSON WHO HOLDS DEFINITIVE NOTES AND COUPONS AND/OR TALONS IN RESPECT OF THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.]¹

THE NOTES COVERED HEREBY HAVE NOT BEEN AND ARE NOT REQUIRED TO BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE NOTES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATIONS PROMULGATED UNDER THE SECURITIES ACT. THE NOTES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (I) AS PART OF THEIR DISTRIBUTION AT ANY TIME, OR (II) UNTIL 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL NOTES OF THE TRANCHE OF WHICH THOSE NOTES ARE A PART, AS DETERMINED AND CERTIFIED TO THE DEALERS OR, IN THE CASE OF NOTES ISSUED ON A SYNDICATED BASIS, THE LEAD MANAGER, BY THE AGENT, EXCEPT IN EITHER CASE IN ACCORDANCE WITH REGULATIONS UNDER THE SECURITIES ACT. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM BY REGULATIONS.

[B.A.T. INTERNATIONAL FINANCE p.l.c.
(the Issuer)
(incorporated with limited liability in England and Wales)/

B.A.T. NETHERLANDS FINANCE B.V.
(the Issuer)
(incorporated with limited liability in The Netherlands)/

B.A.T CAPITAL CORPORATION
(the Issuer)
(incorporated with limited liability in the State of Delaware, United States of America)]²

unconditionally and irrevocably guaranteed by

BRITISH AMERICAN TOBACCO p.l.c., [**]**³

(each a Guarantor and together the Guarantors)

GLOBAL NOTE

¹ Applicable to Notes in bearer form with a maturity of more than one year.

² Delete whichever are not applicable.

³ Insert names of the other Guarantors.

This Note is a Global Note in respect of a duly authorised issue of Notes of the Issuer (the **Notes**) of the Nominal Amount, Specified Currency(ies) and Specified Denomination(s) as are specified in the Final Terms applicable to the Notes (the **Final Terms**), a copy of which is annexed hereto. References herein to the Conditions shall be to the Terms and Conditions of the Notes as set out in Schedule 1 to the Trust Deed (as defined below) as supplemented, replaced and modified by the Final Terms but, in the event of any conflict between the provisions of the said Conditions and the information in the Final Terms, the Final Terms will prevail. Words and expressions defined in the Conditions shall bear the same meanings when used in this Global Note. This Global Note is issued subject to, and with the benefit of, the Conditions and a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 6 July 1998.

The Issuer, subject to and in accordance with the Conditions and the Trust Deed, promises to pay to the bearer hereof on the Maturity Date and/or on such earlier date(s) as all or any of the Notes represented by this Global Note may become due and repayable in accordance with the Conditions and the Trust Deed, the amount payable under the Conditions in respect of such Notes on each such date and to pay interest (if any) on the nominal amount of the Notes from time to time represented by this Global Note calculated and payable as provided in the Conditions and the Trust Deed together with any other sums payable under the Conditions and the Trust Deed, upon presentation and, at maturity, surrender of this Global Note to or to the order of the Agent or any other Paying Agent located outside the United States, its territories and possessions (except as provided in the Conditions) from time to time appointed by the Issuer in respect of the Notes.

If the Final Terms indicates that this Global Note is intended to be a New Global Note, the nominal amount of Notes represented by this Global Note shall be the aggregate amount from time to time entered in the records of both Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking SA (**Clearstream, Luxembourg** and together with Euroclear, the **relevant Clearing Systems**). The records of the relevant Clearing Systems (which expression in this Global Note means the records that each relevant Clearing System holds for its customers which reflect the amount of each such customer's interest in the Notes) shall be conclusive evidence of the nominal amount of Notes represented by this Global Note and, for these purposes a statement issued by a relevant Clearing System (which statement shall be made available to the bearer upon request) stating the nominal amount of Notes represented by this Global Note at any time shall be conclusive evidence of the records of the relevant Clearing System at that time.

If the Final Terms indicates that this Global Note is not intended to be a New Global Note, the nominal amount of the Notes represented by this Global Note shall be the amount stated in the applicable Final Terms or, if lower, the nominal amount most recently entered by or on behalf of the Issuer in the relevant column in Part II or III of Schedule One hereto or in Schedule Two hereto.

On any redemption of, or payment of interest being made in respect of, or purchase and cancellation of, any of the Notes represented by this Global Note the Issuer shall procure that:

- (a) if the Final Terms indicates that this Global Note is intended to be a New Global Note, details of such redemption, payment or purchase and cancellation (as the case may be) shall be entered pro rata in the records of the relevant Clearing Systems, and, upon any such entry being made, the nominal amount of the Notes recorded in the records of the relevant Clearing Systems and represented by this Global Note shall be reduced by the aggregate nominal amount of the Notes so redeemed or purchased and cancelled; or
- (b) if the Final Terms indicates that this Global Note is not intended to be a New Global Note, details of such redemption, payment, purchase and cancellation (as the case may be) shall be entered by or on behalf of the Issuer in Schedule One hereto and the relevant space in Schedule One hereto recording any such redemption, payment, purchase and cancellation (as the case may be) shall be signed by or on behalf of the Issuer. Upon any such redemption or purchase and cancellation the nominal amount of this Global Note and the Notes represented by this Global Note shall be reduced by the nominal amount of such Notes so redeemed or purchased and cancelled.

Payments due in respect of Notes for the time being represented by this Global Note shall be made to the bearer of this Global Note and each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make entries referred to above shall not affect such discharge.

This Global Note may be exchanged (free of charge) in whole, but not in part, for Definitive Notes and (if applicable) Coupons and/or Talons in or substantially in the forms set out in Part 2, Part 3 and Part 4 of Schedule 2 to the Trust Deed (on the basis that all the appropriate details have been included on the face of such Definitive Notes and (if applicable) Coupons and/or Talons and the relevant information supplementing, replacing or modifying the Conditions appearing in the Final Terms has been endorsed on or attached to such Definitive Notes) only upon the occurrence of an Exchange Event.

An **Exchange Event** means:

- (i) both Euroclear and Clearstream, Luxembourg have terminated their businesses without a successor clearing organisation being available; or
- (ii) the relevant Issuer has requested the issuance of definitive Notes upon a change in tax law that would be adverse to such Issuer but for the issuance of definitive Notes in bearer form.

Upon the occurrence of an Exchange Event:

- (A) the Issuer will promptly give notice to Noteholders in accordance with Condition 13 upon the occurrence of such Exchange Event; and
- (B) Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in this Global Note) or the Trustee may give notice to the Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (ii) above, the Issuer may also give notice to the Agent requesting exchange. Any such exchange shall occur on a date specified in the notice not later than 60 days after the date of receipt of the first relevant notice by the Agent.

The first notice requesting exchange in accordance with the above provisions shall give rise to the issue of Definitive Notes for the total nominal amount of Notes represented by this Global Note.

Any such exchange as aforesaid may be made on any day (other than a Saturday or Sunday) on which banks are open for general business in London.

The aggregate nominal amount of Definitive Notes issued upon an exchange of this Global Note will be equal to the aggregate nominal amount of this Global Note. Upon exchange of this Global Note for Definitive Notes, the Agent shall cancel it or procure that it is cancelled.

Until the exchange of the whole of this Global Note as aforesaid, the bearer hereof shall (subject as provided in the next paragraph) in all respects be entitled to the same benefits as if he were the bearer of Definitive Notes and the relative Coupons and/or Talons (if any) in the form(s) set out in Part 2, Part 3 and Part 4 (as applicable) of Schedule 2 to the Trust Deed.

Each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular nominal amount of the Notes represented by this Global Note (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Guarantors, the Trustee, the Agent and any other Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal and interest on such nominal amount of such Notes, the right to which shall be vested, as against the Issuer, solely in the bearer of this Global Note in accordance with and subject to the terms of this Global Note and the Trust Deed.

This Global Note and any non-contractual obligations arising out of or in connection with it is governed by, and shall be construed in accordance with, English law.

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Global Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

This Global Note shall not be valid unless (i) authenticated by Citibank, N.A., London Branch as Agent and (ii) if the Final Terms indicates that this Global Note is intended to be a New Global Note and Euroclear or Clearstream, Luxembourg has been appointed as the common safekeeper, effectuated by such common safekeeper.

This Global Note is transferable only to a successor clearing organisation that is subject to the same terms, in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

IN WITNESS whereof the Issuer has caused this Global Note to be signed manually or in facsimile by two persons duly authorised on its behalf.

FORM OF DEFINITIVE NOTE

THE NOTES COVERED HEREBY HAVE NOT BEEN AND ARE NOT REQUIRED TO BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE NOTES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S PROMULGATED UNDER THE SECURITIES ACT. THE NOTES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (I) AS PART OF THEIR DISTRIBUTION AT ANY TIME, OR (II) UNTIL 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL NOTES OF THE TRANCHE OF WHICH THOSE NOTES ARE A PART, AS DETERMINED AND CERTIFIED TO THE DEALERS OR, IN THE CASE OF NOTES ISSUED ON A SYNDICATED BASIS, THE LEAD MANAGER, BY THE AGENT, EXCEPT IN EITHER CASE IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S.

[ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.]¹

B.A.T. INTERNATIONAL FINANCE p.l.c.
(the Issuer)
(incorporated with limited liability in England and Wales)

B.A.T. NETHERLANDS FINANCE B.V.
(the Issuer)
(incorporated with limited liability in The Netherlands)

B.A.T CAPITAL CORPORATION
(the Issuer)
*(incorporated with limited liability in the State of Delaware, United States of America)*²

unconditionally and irrevocably guaranteed by

BRITISH AMERICAN TOBACCO p.l.c., []³

(each a Guarantor and together the Guarantors)

[Specified Currency and Nominal Amount of Tranche]
NOTES DUE
[Year of Maturity]

¹ Applicable to Notes in bearer form with a maturity of more than one year.

² Delete whichever are not applicable.

³ Insert names of the other Guarantors.

This Note is one of a Series of Notes of [Specified Currency(ies) and Specified Denomination(s)] each of the Issuer (Notes). References herein to the Conditions shall be to the Terms and Conditions [endorsed hereon/set out in Schedule 1 to the Trust Deed (as defined below) which shall be incorporated by reference herein and have effect as if set out herein] as supplemented, replaced and modified by the relevant information (appearing in the Final Terms (the **Final Terms**)) endorsed hereon but, in the event of any conflict between the provisions of the said Conditions and such information in the Final Terms, such information will prevail. Words and expressions defined in the Conditions shall bear the same meanings when used in this Note. This Note is issued subject to, and with the benefit of, the Conditions and a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 6 July 1998.

The Issuer, subject to and in accordance with the Conditions and the Trust Deed, promises to pay to the bearer hereof on the Maturity Date or on such earlier date as this Note may become due and repayable in accordance with the Conditions and the Trust Deed, the amount payable on redemption of this Note and to pay interest (if any) on the nominal amount of this Note calculated and payable as provided in the Conditions and the Trust Deed together with any other sums payable under the Conditions and the Trust Deed.

This Note shall not be valid unless authenticated by Citibank, N.A., London Branch as Agent.

IN WITNESS whereof this Note has been executed on behalf of the Issuer.

Issued as of [].

B.A.T. INTERNATIONAL FINANCE p.l.c./
B.A.T. NETHERLANDS FINANCE B.V./
B.A.T CAPITAL CORPORATION⁴

By: _____
Director

Director/Secretary

Authenticated by
Citibank, N.A., London Branch
as Agent.

By: _____
Authorised Officer

⁴ Delete whichever are not applicable.

[Conditions]

[Conditions to be as set out in Schedule 1 to this Trust Deed or such other form as may be agreed between the Issuer, the Agent, the Trustee and the relevant Dealer(s), but shall not be endorsed if not required by the relevant Stock Exchange]

[Here to be set out the text of the relevant information supplementing,
replacing or modifying the Conditions which appears in the Final Terms relating to the Notes]

PART 3

FORM OF COUPON

On the front:

B.A.T. INTERNATIONAL FINANCE p.l.c./

B.A.T. NETHERLANDS FINANCE B.V./

B.A.T CAPITAL CORPORATION¹

[Specified Currency and Nominal Amount of Tranche]

NOTES DUE

[Year of Maturity]

Series No. []

[Coupon appertaining to a Note in the denomination of [Specified Currency and Specified Denomination]].²

(Part A)

[For Fixed Rate Notes:

This Coupon is payable to bearer, separately negotiable and subject to the Terms and Conditions of the said Notes.

Coupon for
[]
due on [], []]

(Part B)

[For Floating Rate Notes:

Coupon for the amount due in accordance with the Terms and Conditions endorsed on, attached to or incorporated by reference into the said Notes on [the Interest Payment Date falling in [] []/[]].

This Coupon is payable to bearer, separately negotiable and subject to such Terms and Conditions, under which it may become void before its due date.]

¹ Delete whichever are not applicable.

² Delete where the Notes are all of the same denomination.

[ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.]³

[B.A.T. INTERNATIONAL FINANCE p.l.c./B.A.T. NETHERLANDS FINANCE B.V./B.A.T CAPITAL CORPORATION ⁴]

By: _____
Director

Director/Secretary⁵

³ Applicable to Notes in bearer form with a maturity of more than one year.

⁴ Delete whichever is not applicable.

⁵ Delete if not applicable.

PART 4

FORM OF TALON

On the front:

**B.A.T. INTERNATIONAL FINANCE p.l.c./
B.A.T. NETHERLANDS FINANCE B.V./
B.A.T CAPITAL CORPORATION¹**

**[Specified Currency and Nominal Amount of Tranche]
NOTES DUE
[Year of Maturity]**

Series No. []

[Talon appertaining to a Note in the denomination of [Specified Currency and Specified Denomination]]².

On and after [] further Coupons [and a further Talon]³ appertaining to the Note to which this Talon appertains will be issued at the specified office of any of the Paying Agents set out on the reverse hereof (and/or any other or further Paying Agents and/or specified offices as may from time to time be duly appointed and notified to the Noteholders) upon production and surrender of this Talon.

This Talon may, in certain circumstances, become void under the Terms and Conditions endorsed on the Note to which this Talon appertains.

THE NOTES COVERED HEREBY HAVE NOT BEEN AND ARE NOT REQUIRED TO BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE NOTES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION.

THE NOTES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S PROMULGATED UNDER THE SECURITIES ACT. THE NOTES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS (I) AS PART OF THEIR DISTRIBUTION AT ANY TIME, OR (II) UNTIL 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL NOTES OF THE TRANCHE OF WHICH THOSE NOTES ARE A PART, AS DETERMINED AND CERTIFIED TO THE DEALERS OR, IN THE CASE OF NOTES ISSUED ON A SYNDICATED BASIS, THE LEAD MANAGER, BY THE AGENT, EXCEPT IN EITHER CASE IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S.

[ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.]⁴

¹ Delete whichever are not applicable.

² Delete where the Notes are all of the same denomination.

³ Not required on last Coupon sheet.

⁴ Applicable to Notes in bearer form with a maturity of more than one year.

By: _____
Director

Director/Secretary]⁶

⁵ Delete whichever is not applicable.

⁶ Delete if not applicable.

AGENT

Citibank, N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

OTHER PAYING AGENT

Banque Internationale à Luxembourg, *société anonyme*
69, route d'Esch
L-2953 Luxembourg

PROVISIONS FOR MEETINGS OF NOTEHOLDERS

1. The following expressions have the following meanings:

- (a) **voting certificate** means a certificate in English issued by a Paying Agent and dated in which it is stated:
- (i) that on that date Notes (whether in definitive form or represented by a Global Note and not being Notes in respect of which a block voting instruction has been issued and is outstanding in respect of the meeting specified in such voting certificate or any adjournment of it) were deposited with that Paying Agent (or held to its order at a bank or other depository) or blocked in an account with a clearing system and that no such Notes will cease to be so deposited or held or blocked until the earlier of:
 - (A) the conclusion of the meeting specified in such certificate or, if later, any adjournment of it; and
 - (B) the surrender of the certificate to the Paying Agent which issued it; and
 - (ii) that its bearer is entitled to attend and vote at such meeting or any adjournment of it in respect of the Notes represented by such certificate;
- (b) **block voting instruction** means a document in English issued by a Paying Agent and dated in which:
- (i) it is certified that Notes (whether in definitive form or represented by a Global Note and not being Notes in respect of which a voting certificate has been issued and is outstanding in respect of the meeting specified in such block voting instruction or any adjournment of it) have been deposited with that Paying Agent (or to its order at a bank or other depository) or blocked in an account with a clearing system and that no such Notes will cease to be so deposited or held or blocked until the earlier of:
 - (A) the conclusion of the meeting specified in such document or, if later, any adjournment of it; and
 - (B) the surrender, not less than 48 hours before the time fixed for such meeting or adjournment, of the receipt for each such deposited Note which is to be released to the Paying Agent which issued it or (as the case may be) the Notes ceasing with the agreement of the Paying Agent to be held to its order or under its control or so blocked and the notification of the necessary amendment to the block voting instruction by such Paying Agent to the Issuer;
 - (ii) it is certified that each holder of such Notes or a duly authorised agent on his behalf has instructed that Paying Agent that the votes attributable to his Notes so deposited or held or blocked should be cast in a particular way in relation to each resolution to be put to such meeting or any adjourned such meeting and that all such instructions are, during the period of 48 hours before the time fixed for such meeting or adjourned meeting, neither revocable nor subject to amendment;

- (iii) the aggregate nominal amount of the Notes so deposited or held or blocked are listed, distinguishing with regard to each resolution between those in respect of which instructions have been so given (A) to vote for, and (B) to vote against, the resolution; and
 - (iv) a person named in such document (a **proxy**) is authorised and instructed by that Paying Agent to vote in respect of the Notes so listed in accordance with the instructions referred to in (iii) above as set out in such document.
- (c) **Extraordinary Resolution** means:
- (i) a resolution passed at a duly convened meeting of Noteholders held in accordance with this Trust Deed by a majority of at least 75 per cent. of the votes cast;
 - (ii) a resolution in writing executed by or on behalf of the persons holding or representing not less than 75 per cent. of the nominal amount of the Notes for the time being outstanding who would have been entitled to vote if it had been proposed at a meeting at which they were present and may consist of several instruments in like form each executed by or on behalf of one or more Noteholders; or
 - (iii) consent given by way of electronic consents through the relevant Clearing System(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than 75 per cent. of the nominal amount of the Notes for the time being outstanding.
2. A holder of a Note (whether in definitive form or represented by a Global Note) may obtain a voting certificate from a Paying Agent or require a Paying Agent to issue a block voting instruction by depositing his Note with such Paying Agent or (to the satisfaction of such Paying Agent) by such Note being held to its order or under its control or being blocked in an account with a clearing system, in each case not later than 48 hours before the time fixed for the relevant meeting. Voting certificates and block voting instructions shall be valid until the relevant Notes cease to be deposited or held or blocked pursuant to paragraph 1 and until then the holder of a voting certificate or (as the case may be) the proxy named in a block voting instruction shall, for all purposes in connection with any meeting or adjourned meeting of Noteholders, be deemed to be the holder of the Notes to which that voting certificate or block voting instruction relates and the Paying Agent with which (or to the order of which) such Notes have been deposited, held or blocked shall be deemed for such purposes not to be the holder of those Notes.
3. The Issuer, the Guarantors or the Trustee may at any time convene a meeting of Noteholders. If it receives a written request by Noteholders holding at least 10 per cent. of the nominal amount of the Notes for the time being outstanding and is indemnified to its satisfaction against all costs and expenses, the Trustee shall convene a meeting of Noteholders. Whenever any party shall take steps to convene any such meeting it shall give notice to the others of the day, time and place of such meeting and the nature of the business to be transacted thereat as soon as is practicable. Every meeting shall be held at a time and place approved by the Trustee.
4. At least 21 days' notice (exclusive of the day on which the notice is given and of the day of the meeting) shall be given to the Noteholders. A copy of the notice shall be given by the party convening the meeting to the other parties. The notice shall specify the day, time and place of meeting, be given in the manner provided in the Conditions and shall specify, unless the Trustee otherwise agrees, the nature of the resolutions to be proposed and shall include a statement to the effect that Notes may be deposited with or held to the order of or under the control of any Paying Agent or blocked in an account with a clearing system for the purpose of obtaining voting certificates or appointing proxies but not thereafter until 48 hours before the time fixed for the relevant meeting.

5. A person (who may, but need not, be a Noteholder) nominated in writing by the Trustee may act as chairman of a meeting but if no such nomination is made or if the person nominated is not present within 15 minutes after the time fixed for the meeting the Noteholders present shall choose one of their number to be chairman, failing which the Issuer may appoint a chairman. The chairman of an adjourned meeting need not be the same person as the chairman of the original meeting.
6. A meeting that has been validly convened in accordance with paragraph 3 above, may be cancelled by the person who convened such meeting by giving at least 7 days' notice (exclusive of the day on which the notice is given and the day of the meeting) to the Noteholders. Any meeting cancelled in accordance with this paragraph 6 shall be deemed not to have been convened.
7. At a meeting one or more persons present in person holding Definitive Notes or voting certificates or being proxies and holding or representing in the aggregate not less than 10 per cent. of the nominal amount of the Notes for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted unless the requisite quorum be present at the commencement of business. The quorum at a meeting for passing an Extraordinary Resolution shall (subject as provided below) be one or more persons present in person holding Definitive Notes or voting certificates or being proxies and holding or representing in the aggregate a clear majority in nominal amount of the Notes for the time being outstanding provided that the quorum at a meeting the business of which includes consideration of proposals specified in the proviso to paragraph 20 shall be one or more persons present holding Definitive Notes or voting certificates or being proxies and holding or representing in the aggregate not less than three-fourths in nominal amount of the Notes for the time being outstanding.
8. If within 15 minutes from the time fixed for a meeting a quorum is not present the meeting shall, if convened upon the requisition of Noteholders or if the Issuer and the Trustee agree, be dissolved. In any other case it shall stand adjourned to such date, not less than 14 nor more than 42 days later, and to such place as the chairman may decide. At such adjourned meeting one or more persons present in person holding Definitive Notes or voting certificates or being proxies (whatever the nominal amount of the Notes so held or represented) shall form a quorum and may pass any resolution and decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had a quorum been present at such meeting provided that at an adjourned meeting at which an Extraordinary Resolution is to be proposed for the purpose of effecting any of the modifications specified in the proviso to paragraph 20 the quorum shall be one or more persons so present holding Definitive Notes or voting certificates or being proxies and holding or representing in the aggregate not less than one-fourth in nominal amount of the Notes for the time being outstanding.
9. The chairman may with the consent of (and shall if directed by) a meeting adjourn the meeting from time to time and from place to place but no business shall be transacted at an adjourned meeting which might not lawfully have been transacted at the meeting from which the adjournment took place.
10. At least 10 days' notice of a meeting adjourned through want of a quorum shall be given in the same manner as for an original meeting and such notice shall state the quorum required at the adjourned meeting. No notice need, however, otherwise be given of an adjourned meeting.
11. Each question submitted to a meeting shall be decided in the first instance by a show of hands and in case of equality of votes the chairman shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) which he may have as a Noteholder or as a holder of a voting certificate or as a proxy.

12. Unless a poll is (before or on the declaration of the result of the show of hands) demanded at any meeting by the chairman, the Issuer, the Guarantor(s), the Trustee or by one or more persons holding one or more Definitive Notes or voting certificates or being proxies and holding or representing in the aggregate not less than two per cent. in nominal amount of the Notes for the time being outstanding, a declaration by the chairman that a resolution has been carried or carried by a particular majority or lost or not carried by any particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.
13. If a poll is demanded, it shall be taken in such manner and (subject as provided below) either at once or after such adjournment as the chairman directs and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuation of the meeting for the transaction of any business other than the question on which the poll has been demanded.
14. A poll demanded on the election of a chairman or on a question of adjournment shall be taken at the meeting without adjournment.
15. The Issuer, the Guarantors and the Trustee (through their respective representatives) and their respective financial and legal advisers may attend and speak at any meeting of Noteholders. No one else may attend or speak at a meeting of Noteholders or have any of the powers exercisable by Noteholders in such meeting or join in requesting or convening such meeting, unless he is the holder of a Definitive Note or a voting certificate or is a proxy.
16. Subject as provided in paragraph 15 hereof at any meeting:
 - (a) on a show of hands every person who is present in person and produces a Definitive Note or voting certificate or is a proxy shall have one vote; and
 - (b) on a poll every person who is so present shall have one vote in respect of each £1 or such other amount as the Trustee may in its absolute discretion stipulate (or, in the case of meetings of holders of Notes denominated in another currency, such amount in such other currency as the Trustee in its absolute discretion may stipulate) in nominal amount of the Definitive Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy.

Without prejudice to the obligations of the proxies named in any block voting instruction any person entitled to more than one vote need not use all his votes or cast all the votes to which he is entitled in the same way.

17. A proxy need not be a Noteholder.
18. Each block voting instruction shall be deposited at such place as the Trustee shall designate or approve, at least 24 hours before the time appointed for holding the meeting or adjourned meeting at which the proxy named in the block voting instruction proposes to vote and in default the block voting instruction shall not be treated as valid unless the chairman of the meeting decides otherwise before the meeting or adjourned meeting proceeds to business. A notarially certified copy of each block voting instruction shall if required by the Trustee be produced by the proxy at the meeting or adjourned meeting but the Trustee shall not thereby be obliged to investigate or be concerned with the validity of, or the authority of, the proxy named in a block voting instruction.
19. A vote cast in accordance with the terms of a block voting instruction shall be valid even if the block voting instruction or any of the Noteholders' instructions pursuant to which it was executed has been previously revoked or amended, unless written intimation of such revocation or amendment is

received from the relevant Paying Agent by the Issuer or the Trustee at its registered office (or at such other place as the Trustee shall designate or approve) or by the chairman of the meeting in each case at least 24 hours before the time fixed for the meeting or adjourned meeting at which the block voting instruction is used.

20. A meeting of Noteholders shall, subject to the Conditions, in addition to the powers given above, but without prejudice to any powers conferred on other persons by this Trust Deed, have power exercisable by Extraordinary Resolution:
- (a) to sanction any proposal by the Issuer, any of the Guarantors or the Trustee for any modification, abrogation, variation or compromise of, or arrangement in respect of, the rights of the Noteholders and/or the Couponholders against the Issuer or any of the Guarantors whether or not these rights arise under this Trust Deed;
 - (b) to sanction the exchange or substitution for the Notes of, or the conversion of the Notes into, shares, bonds, or other obligations or securities of the Issuer, any of the Guarantors or any other entity;
 - (c) to assent to any modification of this Trust Deed which shall be proposed by the Issuer, any of the Guarantors or the Trustee;
 - (d) to authorise anyone to concur in and do anything necessary to carry out and give effect to an Extraordinary Resolution;
 - (e) to give any authority, direction or sanction required to be given by Extraordinary Resolution;
 - (f) to appoint any persons (whether Noteholders or not) as a committee or committees to represent the interests of the Noteholders and to confer upon them any powers or discretions which the Noteholders could themselves exercise by Extraordinary Resolution;
 - (g) to approve a proposed new Trustee and to remove a Trustee;
 - (h) to approve the substitution of any entity for the Issuer or any of the Guarantors (or any previous substitute) as principal debtor or guarantor under this Trust Deed; and
 - (i) to discharge or exonerate the Trustee from any liability in respect of any act or omission for which it may become responsible under this Trust Deed;

provided that the special quorum provisions contained in the proviso to paragraph 7 and, in the case of an adjourned meeting, in the proviso to paragraph 8 shall apply to any Extraordinary Resolution in relation to any of the matters specified in paragraph 20(b) or (h) or for the purpose of making any modification to this Trust Deed (each of which shall only be capable of being effected after having been approved by an Extraordinary Resolution) which would have the effect of:

- (i) changing the date of maturity of the Notes or the dates on which interest is payable in respect of the Notes; or
- (ii) reducing or cancelling the amount of principal of, or the rate of interest payable in respect of, the Notes; or
- (iii) changing the currency of payment of the Notes or Coupons; or

- (iv) modifying the provisions hereof relating to the quorum required at meetings of the Noteholders or the majority required to pass (whether at such meeting or by writing) an Extraordinary Resolution; or
 - (v) amending this proviso.
21. Any procedural resolution passed at a meeting of Noteholders duly convened and held in accordance with this Trust Deed and an Extraordinary Resolution duly passed in accordance with this Trust Deed shall be binding on all the Noteholders, whether or not present at the meeting, and on all the Couponholders and each of them shall be bound to give effect to it accordingly. The passing of such a resolution shall be conclusive evidence that the circumstances of such resolution justify the passing of it. The Issuer shall give notice of the passing of an Extraordinary Resolution to Noteholders as soon as practicable after it has been passed but failure to do so shall not invalidate the resolution.
22. Minutes shall be made of all resolutions and proceedings at every meeting and, if purporting to be signed by the chairman of that meeting or of the next succeeding meeting of Noteholders, shall be conclusive evidence of the matters in them. Until the contrary is proved every meeting for which minutes have been so made and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly passed and transacted.
23. Subject to the following sentence, a Written Resolution may be contained in one document or in several documents in like form, each signed by or on behalf of one or more such Noteholders.

For so long as the Notes are in the form of a Global Note held on behalf of one or more of Euroclear, Clearstream, Luxembourg or another clearing system, then, in respect of any resolution proposed by the relevant Issuer or the Trustee:

- (a) where the terms of the resolution proposed by the Issuer, the Guarantor or the Trustee (as the case may be) have been notified to the Noteholders through the relevant clearing system(s) as provided in sub-paragraphs (i) and/or (ii) below, each of the Issuer, the Guarantor and the Trustee shall be entitled to rely upon approval of such resolution given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) to the Principal Paying Agent or another specified agent and/or the Trustee in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding (the **Required Proportion**) (**Electronic Consent**) by close of business on the Relevant Date. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. None of the Issuer, the Guarantor or the Trustee shall be liable or responsible to anyone for such reliance.
- (i) When a proposal for a resolution to be passed as an Electronic Consent has been made, at least 10 days' notice (exclusive of the day on which the notice is given and of the day on which affirmative consents will be counted) shall be given to the Noteholders through the relevant clearing system(s). The notice shall specify, in sufficient detail to enable Noteholders to give their consents in relation to the proposed resolution, the method by which their consents may be given (including, where applicable, blocking of their accounts in the relevant clearing system(s)) and the time and date (the **Relevant Date**) by which they must be received in order for such consents to be validly given, in each case subject to and in accordance with the operating rules and procedures of the relevant clearing system(s).

- (ii) If, on the Relevant Date on which the consents in respect of an Electronic Consent are first counted, such consents do not represent the Required Proportion, the resolution shall, if the party proposing such resolution (the **Proposer**) so determines, be deemed to be defeated. Such determination shall be notified in writing to the other party or parties to the Trust Deed. Alternatively, the Proposer may give a further notice to Noteholders that the resolution will be proposed again on such date and for such period as shall be agreed with the Trustee (unless the Trustee is the Proposer). Such notice must inform Noteholders that insufficient consents were received in relation to the original resolution and the information specified in sub-paragraph (i) above. For the purpose of such further notice, references to “Relevant Date” shall be construed accordingly.

For the avoidance of doubt, an Electronic Consent may only be used in relation to a resolution proposed by the Issuer, the Guarantor or the Trustee which is not then the subject of a meeting that has been validly convened in accordance with paragraph 3 above, unless that meeting is or shall be cancelled or dissolved; and

- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution has been validly passed, the relevant Issuer, the Guarantor and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the relevant Issuer, the Guarantor and/or the Trustee, as the case may be, (a) by accountholders with entitlements to such Global Note or, (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder or the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer, the Guarantor and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the **relevant clearing system**) and, in the case of (b) above, the relevant clearing system and the person identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Noteholders and Couponholders, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear’s Easy-Way or Clearstream, Luxembourg’s CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. Neither the relevant Issuer, the Guarantor nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

Each Written Resolution and each Electronic Consent shall for all purposes be as valid and effectual as an Extraordinary Resolution passed at a meeting of such Noteholders duly convened and held in accordance with the provision contained herein. Each Written Resolution and each Electronic Consent will be binding on all Noteholders and holders of Coupons and Talons, whether or not they participated in such Written Resolution or Electronic Consent.

- 24. (a) If and whenever the Issuer shall have issued and have outstanding Notes of more than one Series the foregoing provisions of this Schedule shall have effect subject to the following modifications:
 - (i) a resolution which in the opinion of the Trustee affects the Notes of one Series only shall be deemed to have been duly passed if passed at a meeting of the holders of the Notes of that Series;

- (ii) a resolution which in the opinion of the Trustee affects the Notes of more than one Series but does not give rise to a conflict of interests between the holders of Notes of any of the Series so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the Notes of all the Series so affected;
 - (iii) a resolution which in the opinion of the Trustee affects the Notes of more than one Series and gives or may give rise to a conflict of interests between the holders of the Notes of one Series or group of Series so affected shall be deemed to have been duly passed only if passed at separate meetings of the holders of the Notes of each Series or group of Series so affected; and
 - (iv) to all such meetings as aforesaid all the preceding provisions of this Schedule shall *mutatis mutandis* apply as though references therein to Notes and Noteholders were references to the Notes of the Series or group of Series in question and to the holders of such Notes respectively.
- (b) If the Issuer shall have issued and have outstanding Notes which are not denominated in pounds sterling in the case of any meeting of holders of Notes of more than one currency the principal amount of such Notes shall (i) for the purposes of paragraph 3 above be the equivalent in pounds sterling at the spot rate of a bank nominated by the Trustee for the conversion of the relevant currency or currencies into pounds sterling on the seventh dealing day prior to the day on which the requisition in writing is received by the Issuer and (ii) for the purposes of paragraphs 7, 8 and 16 above (whether in respect of the meeting or any adjourned such meeting or any poll resulting therefrom) be the equivalent at such spot rate on the seventh dealing day prior to the day of such meeting. In such circumstances, on any poll each person present shall have one vote for each £1 (or such other pounds sterling amount as the Trustee may in its absolute discretion stipulate) in principal amount of the Notes (converted as above) which he holds or represents.
25. Subject to all other provisions of this Trust Deed, the Trustee may, without the consent of the Noteholders or the Couponholders, prescribe such further regulations regarding the holding of meetings and attendance and voting at them as the Trustee may in its sole discretion determine including (without limitation) such regulations and requirements as the Trustee thinks reasonable (a) to satisfy itself that the persons who purport to make any requisition in accordance with this Trust Deed are entitled to do so; (b) as to the form of voting certificates or block voting instructions so as to satisfy itself that persons who purport to attend or vote at a meeting are entitled to do so; (c) as to the attendance and voting by persons beneficially entitled to interests in the Global Note without the need for them to hold Definitive Notes; (d) where the Trustee has determined that a resolution may properly be put to a meeting of the holders of the Notes of more than one Series issued in different denominations and/or different currencies, as to the weighting of the votes attributable to each such series; and (e) so as to satisfy itself that persons who have purported to sign a resolution in writing to constitute an Extraordinary Resolution were in fact Noteholders and holders of different Notes.

SIGNATORIES

EXECUTED as a DEED by)
B.A.T. INTERNATIONAL FINANCE p.l.c.)
acting by)
and)

EXECUTED as a DEED by)
B.A.T CAPITAL CORPORATION)
acting by)
and)

EXECUTED as a DEED by)
B.A.T. NETHERLANDS FINANCE B.V.)
acting by)
and)

EXECUTED as a DEED by)
BRITISH AMERICAN TOBACCO p.l.c.)
acting by)

THE COMMON SEAL of)
THE LAW DEBENTURE TRUST)
CORPORATION p.l.c.)
was affixed to this **DEED**)
in the presence of:)

Director

Authorised Signatory

6 JULY 1998 AND MODIFIED AND RESTATED ON
31 MARCH 2020

B.A.T. INTERNATIONAL FINANCE p.l.c.

and

B.A.T. NETHERLANDS FINANCE B.V.

and

B.A.T CAPITAL CORPORATION

and

BRITISH AMERICAN TOBACCO p.l.c.

and

THE LAW DEBENTURE TRUST CORPORATION
p.l.c.

relating to a
£25,000,000,000
Euro Medium Term Note Programme

TRUST DEED

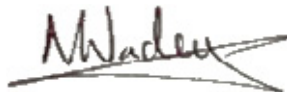
ALLEN & OVERY

Allen & Overy LLP

SIGNATORIES

EXECUTED as a **DEED** by
B.A.T. INTERNATIONAL FINANCE p.l.c.

)
)



acting by _____
and _____

)
)



EXECUTED as a **DEED** by
B.A.T. NETHERLANDS FINANCE B.V.

)
)

acting by _____
and _____

)
)

EXECUTED as a **DEED** by
B.A.T CAPITAL CORPORATION

)
)

acting by _____
and _____

)
)

EXECUTED as a **DEED** by
BRITISH AMERICAN TOBACCO p.l.c.

)
)

acting by _____
and _____

)
)

SIGNATORIES

EXECUTED as a **DEED** by)

B.A.T. INTERNATIONAL FINANCE p.l.c.)

acting by _____)

and _____)

EXECUTED as a **DEED** by)

B.A.T. NETHERLANDS FINANCE B.V.)

acting by)

and)



EXECUTED as a **DEED** by)

B.A.T CAPITAL CORPORATION)

acting by _____)

and _____)

EXECUTED as a **DEED** by)

BRITISH AMERICAN TOBACCO p.l.c.)

acting by _____)

and _____)

SIGNATORIES

EXECUTED as a DEED by)

B.A.T. INTERNATIONAL FINANCE p.l.c.)

acting by _____)

and _____)

EXECUTED as a DEED by)

B.A.T. NETHERLANDS FINANCE B.V.)

acting by _____)

and _____)

EXECUTED as a DEED by)

B.A.T CAPITAL CORPORATION)

acting by T.J. Hazlett, Director)

and B.T. Harrison, Secretary)



EXECUTED as a DEED by)

BRITISH AMERICAN TOBACCO p.l.c.)

acting by _____)

and _____)

BAT Signature Page to Thirty-Second Supplemental Trust Deed

SIGNATORIES

EXECUTED as a DEED by)

B.A.T. INTERNATIONAL FINANCE p.l.c.)

acting by _____)

and _____)

EXECUTED as a DEED by)

B.A.T. NETHERLANDS FINANCE B.V.)

acting by _____)

and _____)

EXECUTED as a DEED by)

B.A.T CAPITAL CORPORATION)

acting by _____)

and _____)

EXECUTED as a DEED by)

BRITISH AMERICAN TOBACCO p.l.c.)

acting by _____)

and _____)



BAT Signature Page to Thirty-Second Supplemental Trust Deed

EXECUTED as a DEED by)

THE LAW DEBENTURE TRUST)

CORPORATION p.l.c. in the)

presence of:)



Director:

Secretary, representing Law Debenture Corporate Services Ltd: 

Trustee Signature Page to Thirty-Second Supplemental Trust Deed

Description of Securities Registered under Section 12 of the Securities Exchange Act of 1934 (the “Exchange Act”)

As of December 31, 2020, British American Tobacco p.l.c. (“BAT”, the “Company”, “we”, “us” and “our”) had the following series of securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
American Depositary Shares (evidenced by American Depositary Receipts) each representing one ordinary share	BTI	New York Stock Exchange
Ordinary shares, nominal value 25 pence per share	BTI	New York Stock Exchange*
2.259% Notes due 2028	BTI28	New York Stock Exchange
2.726% Notes due 2031	BTI31	New York Stock Exchange
3.734% Notes due 2040	BTI40	New York Stock Exchange
3.984% Notes due 2050	BTI50A	New York Stock Exchange
1.668% Notes due 2026	BTI26A	New York Stock Exchange
4.700% Notes due 2027	BTI27A	New York Stock Exchange
4.906% Notes due 2030	BTI30	New York Stock Exchange
5.282% Notes due 2050	BTI50	New York Stock Exchange
2.789% Notes due 2024	BTI24	New York Stock Exchange
3.215% Notes due 2026	BTI26	New York Stock Exchange
3.462% Notes due 2029	BTI29	New York Stock Exchange
4.758% Notes due 2049	BTI49	New York Stock Exchange
2.764% Notes due 2022	BTI22	New York Stock Exchange
3.222% Notes due 2024	BTI24A	New York Stock Exchange
3.557% Notes due 2027	BTI27	New York Stock Exchange
4.390% Notes due 2037	BTI37	New York Stock Exchange
4.540% Notes due 2047	BTI47	New York Stock Exchange
Floating Rate Notes due 2022	BTI22A	New York Stock Exchange

* Listed, not for trading, but only in connection with the listing of the applicable Registrant’s American Depositary Shares issued in respect thereof.

BAT is the issuer of the ordinary shares and American Depositary Shares, as described below. The rest of the securities registered pursuant to Section 12(b) of the Exchange Act described herein were issued by either B.A.T. International Finance p.l.c. (“BATIF”) or B.A.T Capital Corporation (“BATCAP”), wholly-owned finance subsidiaries of BAT. BAT is a guarantor and co-registrant of the securities issued by each of BATIF and BATCAP described herein.

BAT’s ordinary shares and American Depositary Shares are described below under “*Description of BAT Ordinary Shares and American Depositary Shares*”. BATIF’s 1.668% Notes due 2026 are described below under “*Description of the Notes Issued Under the BATIF Indenture*”.

BATCAP's 2.259% Notes due 2028, 2.726% Notes due 2031, 3.734% Notes due 2040, 3.984% Notes due 2050, 4.700% Notes due 2027, 4.906% Notes due 2030, 5.282% Notes due 2050, 2.789% Notes due 2024, 3.215% Notes due 2026, 3.462% Notes due 2029 and 4.758% Notes due 2049 are described below under "*Description of the Notes Issued Under the 2019 BATCAP Indenture*". BATCAP's 2.764% Notes due 2022, 3.222% Notes due 2024, 3.557% Notes due 2027, 4.390% Notes due 2037, 4.540% Notes due 2047, and Floating Rate Notes due 2022 are described below under "*Description of the Notes Issued Under the 2017 BATCAP Indenture*".

Capital terms used but not defined herein have the meanings given to them in BAT's Annual Report on Form 20-F for the fiscal year ended December 31, 2020 (the "2020 Form 20-F"). Terms that are defined below retain such definitions solely for purposes of the relevant description of securities.

A. Description of BAT Ordinary Shares and American Depositary Shares

DESCRIPTION OF BAT ORDINARY SHARES

The following is a summary of the material terms of (1) the BAT ordinary shares as set forth in the BAT articles of association; (2) English law insofar as it applies to the BAT ordinary shares; and (3) the BAT articles of association, which were adopted pursuant to a special resolution (as defined below) on April 28, 2010. Please note that this is only a summary, and may not contain all of the relevant information.

BAT Articles of Association

BAT is registered in England and Wales under the UK Companies Act 2006 with company registration number 3407696. BAT's purposes and objects are not restricted.

Share Capital

As at December 31, 2020, the issued and fully paid share capital of BAT was 2,456,521,597 ordinary shares, each with a nominal value of 25 pence. Of this number, 162,347,246 ordinary shares were registered as treasury shares. There are no acquisition rights or obligations in relation to the issue of BAT ordinary shares in the capital of BAT or an undertaking to increase the capital of BAT. There are no convertible securities, exchangeable securities or securities with warrants in BAT.

BAT ordinary shares are fully paid and, accordingly, no further contribution of capital may be required by BAT from the holders of BAT ordinary shares.

Further Issuances of Share Capital and Preemptive Rights

Pursuant to the UK Companies Act 2006, BAT's directors are, with certain exceptions, not permitted to allot any equity securities without express authorization from BAT's shareholders. Further, under the UK Companies Act 2006, BAT may not issue shares for cash (other than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favorable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders. See "*—Voting Rights*" for an explanation of the requirements for approval of a special resolution.

Subject to receipt of authorization from BAT's shareholders, the directors may issue shares with such rights or restrictions, including shares that are redeemable at the option of BAT or the shareholder, as the directors or BAT by ordinary resolution may determine. See "*Voting Rights*" for an explanation of the requirements for approval of an ordinary resolution.

Throughout this section, references to shares of BAT refer to any shares that may be issued out of the capital of BAT, including BAT ordinary shares.

Changes to the Share Capital

Shareholder approval by ordinary resolution is required for BAT to:

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

The UK Companies Act 2006 contains the procedural requirements for a reduction of capital. The reduction of capital must be approved by shareholders by special resolution, and must be approved by a court. The decision to approve the reduction is at the court's discretion, and it will consider whether (a) the reduction is for a discernible purpose, (b) all shareholders are treated equally, (c) the reduction has been properly explained to shareholders and (d) the company's creditors are safeguarded. Subject to these requirements, BAT may reduce its share capital, its capital redemption reserve and any share premium account in any way.

Repurchase of Shares

Once approved by BAT shareholders by ordinary resolution and subject to certain procedural requirements of the UK Companies Act 2006, BAT may repurchase its own shares, including any BAT ordinary shares and any redeemable shares that may be issued. Any shares which have been repurchased may be held as treasury shares or, if not so held, must be canceled immediately upon the completion of the purchase, thereby reducing the amount of BAT's issued share capital.

Dividends

BAT shareholders may by ordinary resolution declare dividends in accordance with the respective rights of the shareholders but no dividends shall exceed the amount recommended by the directors. No dividend shall be paid other than out of profits available for distribution as specified in the UK Companies Act 2006. The directors may pay interim dividends or dividends payable at a fixed rate, if it appears to them that they are justified by the profits of BAT available for distribution. If the directors act in good faith, they shall not incur any liability to the holders

of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights, including the BAT ordinary shares.

BAT ordinary shares carry the right to receive dividends and distributions that have been declared by BAT on a pro rata basis but have no other right to share in the profits of BAT and are not entitled to any fixed income. BAT may issue shares that rank prior to the BAT ordinary shares in respect of payment of dividends.

BAT shareholders may, at a general meeting declaring a dividend, upon the recommendation of the directors and by ordinary resolution, direct that the payment of all or any part of the dividend be satisfied by the distribution of specific assets and, where any difficulty arises in regard to the distribution, the directors may settle the same as they think fit.

The directors may, with the approval of BAT shareholders by ordinary resolution, offer any holders of BAT ordinary shares the right to elect to receive BAT ordinary shares, credited as fully paid, instead of cash in respect of the whole (or some part, to be determined by the directors) of any dividend. BAT or the directors may fix a date as the record date by reference to which a dividend will be declared or paid or a distribution, allotment or issue made, and that date may be before, on or after the date on which the dividend, distribution, allotment or issue is declared.

No dividend or other money payable in respect of a share shall bear interest against BAT, unless otherwise provided by the rights attached to the share. Dividends or other distributions paid in respect of BAT ordinary shares do not bear interest.

The directors may elect to pay dividends solely by means of electronic transfer, or such other method as the directors deem appropriate and which method may be different for different holders or groups of holders of shares, to an account nominated in writing by the holder of the shares. Amounts due to shareholders who provide no, or invalid, account details may be held in an account in BAT's name until such shareholders nominate a valid account.

BAT may cease sending dividend payments in respect of any shares if these payments have been returned undelivered to, or left uncashed by, the shareholder on at least two consecutive occasions or, if following one such occasion, reasonable inquiries have failed to establish a shareholder's new address. BAT must recommence sending payments for dividends payable on that share if the person(s) entitled so request and have supplied in writing a new address or account to be used for that purpose.

Any dividend which has remained unclaimed for 12 years from the date when it became due for payment will, if the directors so resolve, be forfeited and cease to remain owing by BAT.

Voting Rights

All BAT ordinary shares have equal voting rights and are entitled to attend and vote at all general meetings of BAT. BAT may issue, subject to the restrictions discussed above under the caption "*—Share Capital—Further Issuances of Share Capital and Preemptive Rights*" shares with preferential voting rights. This section assumes that all shares have equal voting rights and that no preferential shares are issued.

Under English law, resolutions to be voted on by shareholders at a general meeting can be either an ordinary resolution, which means that the resolution must be passed by a simple majority of shareholders or holders of a simple majority of the shares (depending on whether the vote is by a show of hands or by a poll) present in person or by proxy and entitled to vote at the general meeting, or a special resolution, which means that the resolution must be passed by a majority of not less than 75% of the shareholders or holders of 75% of the shares (depending on whether the vote is by a show of hands or by a poll) present in person or by proxy and entitled to vote at the general meeting. For a resolution to be regarded as a special resolution, the notice of the general meeting must specify the intention to propose the resolution as a special resolution.

A resolution put to the vote of a general meeting must be decided on a show of hands unless either the notice of the meeting specifies that a poll will be called on such resolution or a poll is (before the resolution is put to the vote on a show of hands or immediately after the result of a show of hands on that resolution is declared) demanded by:

- the chairman of the meeting;
- a majority of the directors present at the meeting;
- not less than five shareholders having the right to vote at the meeting;
- a shareholder or shareholders representing not less than one-tenth of the total voting rights of all the shareholders having the right to vote at the meeting (excluding any voting rights attached to any shares in BAT held as treasury shares); or
- a shareholder or shareholders holding shares conferring a right to vote on the resolution on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right (excluding any shares in BAT conferring a right to vote at the meeting which are held as treasury shares).

On a show of hands, every shareholder who is present in person has one vote regardless of the number of shares held by such shareholder. Every proxy duly appointed by one or more shareholders entitled to vote on the resolution and present has one vote, except that if the proxy has been duly appointed by more than one shareholder entitled to vote and is instructed by one or more of those shareholders to vote for the resolution and by one or more others to vote against it, or is instructed by one or more of those shareholders to vote in one way and is given discretion as to how to vote by one or more others (and wishes to use that discretion to vote in the other way) he has one vote for and one vote against the resolution.

On a poll every shareholder present in person or by duly appointed proxy has one vote for every share held by the shareholder. A shareholder or his, her or its duly appointed proxy entitled to more than one vote need not use all his, her or its votes or cast all the votes he, she or it uses the same way.

For the purposes of determining which persons are entitled to attend or vote at a general meeting, BAT may specify in the notice convening the meeting a time, not more than 48 hours before the time fixed for the meeting (not including any part of a day that is not a working day), by which a person must be entered on the register in order to have the right to attend or vote at the meeting.

In the case of joint holders, the most senior of the joint holders who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the register of shareholders.

If any shares are issued by BAT that are not fully paid, holders of those shares will not be permitted to vote at any general meeting or at any separate meeting of the holders of that class of shares, either in person or by proxy, unless all amounts presently payable by such holder in respect of that share have been paid.

There are no limitations under BAT's articles of association restricting the right of non-UK resident or foreign owners to hold or vote ordinary shares in BAT.

Transfer of the Shares

A share in certificated form may be transferred by an instrument of transfer which may be in any usual form or in any other form approved by the directors, executed by or on behalf of the transferor and, where the share is not fully paid, by or on behalf of the transferee. A share in uncertificated form may be transferred by means of the relevant system concerned. The transfer may not be in favor of more than four transferees.

In their absolute discretion, the directors may refuse to register the transfer of a share in certificated form which is not fully paid provided that if the share is listed on the Official List of the Financial Conduct Authority such refusal does not prevent dealings in the shares from taking place on an open and proper basis. The directors may also refuse to register a transfer of a share in certificated form (whether fully paid or not) unless the instrument of transfer:

- is lodged, duly stamped, at the registered office of BAT or such other place as the directors may appoint and is accompanied by the certificate for the share to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer;
- is in respect of only one class of share; and
- is not in favor of more than four transferees.

The directors may refuse to register a transfer of a share in uncertificated form to a person who is to hold it thereafter in certificated form in any case where BAT is entitled to refuse to register the transfer under the Uncertificated Securities Regulations 2001.

If the directors refuse to register a transfer of a share, they shall as soon as practicable and in any event within two months after the date on which the transfer was lodged with BAT (in the case of a transfer of a share in certificated form) or the date on which the operator-instruction was received by BAT (in the case of a transfer of a share in uncertificated form which will be held thereafter in certificated form) send to the transferee notice of the refusal together with reasons for the refusal. The directors shall send to the transferee such further information about the reasons for the refusal to the transferee as the transferee may reasonably request.

No fee shall be charged for the registration of any instrument of transfer or other document or instruction relating to or affecting the title to any share.

For uncertificated shares, transfers shall be registered only in accordance with the terms of the Uncertificated Securities Regulations 2001.

Distribution of Assets on a Winding-up

If BAT is wound up, the liquidator may, with the sanction of a special resolution and any other sanction required by law, divide among the shareholders in specie the whole or any part of the assets of BAT and may, for that purpose, value any assets and determine how the division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the shareholders as he may with the like sanction determine, but no shareholder shall be compelled to accept any assets upon which there is a liability.

Disclosure of Shareholding Ownership

There are no provisions in BAT's articles of association whereby persons acquiring, holding or disposing of a certain percentage of BAT's ordinary shares are required to make disclosure of their ownership percentage, although there are such requirements under statute and regulation.

Untraced Shareholders

BAT is entitled to sell at the best price reasonably obtainable any share held by a shareholder, or any share to which a person is entitled by transmission of the title of such share if:

- for a period of 12 years, no payment for amounts payable in respect of the share sent and payable in a manner authorized by the articles of association has been cashed or effected and no communication has been received by BAT from the shareholder or person concerned;
- during that period BAT has paid at least three cash dividends (whether interim or final) and no such dividend has been claimed by the shareholder or person concerned;
- BAT has, after the expiration of that period, by advertisement in a national newspaper published in the United Kingdom and in a newspaper circulating in the area of the registered address or last known address of the shareholder or person concerned, given notice of its intention to sell such share, and the advertisements, if not published on the same day, shall have been published within 30 days of each other; and

BAT will be indebted to the former shareholder or other person previously entitled to the share for an amount equal to the net proceeds of the sale, but no trust or duty to account shall arise and no interest shall be payable in respect of the proceeds of sale.

- BAT has not, during the further period of three months following the date of publication of the advertisements (or, if published on different dates, the later or latest of them) and prior to the sale of the share, received any communication from the shareholder or person concerned.

If, on three consecutive occasions, notices, documents or information sent or supplied to a shareholder have been returned undelivered, the shareholder shall not be entitled to receive any subsequent notice, document or information until he has supplied to BAT (or its agent) a new registered address, or a postal address within the United Kingdom or the Republic of South Africa, or shall have informed BAT of an electronic address.

Variation of Rights

If at any time the capital of BAT is divided into different classes of shares, the rights attached to any class may be varied, either while BAT is a going concern or during or in contemplation of a winding up in such manner (if any) as may be provided by those rights (depending on the drafting of those rights, they may be more significant than is required by law) or if there are no such provisions either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class (not including any treasury shares), or with the approval of shareholders by a special resolution passed at a separate meeting of the holders of such shares, but not otherwise.

To every such separate meeting the provisions of the articles of association relating to general meetings shall apply, except that the quorum for any such meeting shall be two persons together holding or representing by proxy at least one-third in nominal value of the issued shares of the class in question (excluding treasury shares). At an adjourned meeting, the quorum shall be one person holding shares of the class in question (excluding treasury shares) or his, her or its proxy.

Unless otherwise expressly provided by the rights attached to any class of shares, those rights shall be deemed not to be varied by the purchase by BAT of any of its own shares or the holding of such shares in treasury.

Change of Control and Takeovers

BAT is subject to the City Code on Takeovers and Mergers, which governs the conduct of mergers and takeovers in the UK.

An English public limited company such as BAT may be acquired in a number of ways, including by means of a scheme of arrangement (as defined below) between the company and its shareholders or by means of a takeover offer.

A scheme of arrangement is a statutory procedure under the UK Companies Act 2006 pursuant to which the English courts may approve an arrangement between an English company and some or all of its shareholders. In a scheme of arrangement, the company would make an initial application to the court to convene a meeting or meetings of its shareholders at which a majority in number of shareholders representing 75% of the voting rights of the shareholders present and voting either in person or by proxy at the meeting must agree to the arrangement by which they will sell their shares in exchange for the consideration being offered by the bidder. If the shareholders so agree, the company will return to court to request the court to sanction the arrangement. Upon such a scheme of arrangement becoming effective in accordance with its terms and the UK Companies Act 2006, it will bind the company and such shareholders.

A takeover offer is an offer to acquire all of the outstanding shares of a company (other than shares which at the date of the offer are already held by the bidder). Under the City Code on Takeovers and Mergers and in order to squeeze out dissenting shareholders, the offer must be made on identical terms to all holders of shares to which the offer relates. If the bidder, by virtue of acceptances of the offer, acquires or contracts to acquire not less than 90% in value of the shares to which the offer relates representing not less than 90% of the voting rights owned by the shares, the UK Companies Act 2006 allows the bidder to give notice to any non-accepting shareholder that the bidder intends to acquire his, her or its shares through a compulsory acquisition (also referred to as a squeeze out), and the shares of such nonaccepting shareholders will be acquired by the bidder six weeks later on the same terms as the offer, unless the shareholder objects to the English court and the court enters an order that the bidder is not entitled to acquire the shares or specifying terms of the acquisition different from those of the offer.

The UK Companies Act 2006 permits a scheme of arrangement or takeover offer to be made relating only to a particular class or classes of a company's shares.

As BAT is a UK premium listed company, if it were subject to a takeover bid and the takeover were structured as a contractual takeover offer, under the UK Listing Rules a bidder would have to, by virtue of its shareholdings and acceptances of its takeover offer, acquire or agree to acquire shares carrying 75% of the voting rights of BAT before it could cancel BAT's listing on the Main Market of the LSE.

Where the takeover is by way of a scheme of arrangement, the UK Listing Rules do not impose any additional rules as regards shareholder approval or the level of acceptances required before BAT could be delisted, as the scheme procedure provides sufficient protection for shareholders.

There are no provisions in BAT's articles of association that would have the effect of delaying, deferring or preventing a takeover, or change of control, of BAT.

Under English law, BAT's directors have a fiduciary duty to take only those actions that are in the interests of BAT and any anti-takeover devices employed by the directors in the future, if any, must accordingly be in the interests of BAT.

However, under the City Code on Takeovers and Mergers, if an acquisition of BAT ordinary shares increases the aggregate holding of an acquirer and persons acting in concert with the acquirer (i.e., persons who, pursuant to an agreement or understanding, cooperate to obtain or consolidate control of a company or to frustrate the successful outcome of an offer for a company) to shares carrying 30% or more of the voting rights in BAT, the acquirer and, depending on the circumstances, its concert parties, would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for the outstanding BAT ordinary shares at a price not less than the highest price paid for the BAT ordinary shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of shares by a person holding (together with its concert parties) shares carrying between 30 and 50% of the voting rights in BAT if the effect of such acquisition were to increase that person's percentage of the voting rights.

General Meetings

An annual general meeting of shareholders must be held every year within a period of six months of the day following BAT's financial year end (which is December 31), at such place or places, date and time as may be decided by the directors.

Ability to Call General Meetings

The directors may call general meetings. If there are not sufficient directors to form a quorum in order to call a general meeting, any director may call a general meeting. If there is no director, any shareholder of BAT may call a general meeting.

The directors are required to call a general meeting if requested by shareholders representing at least 5% of the paid-up capital of BAT as carries the right of voting at general meetings (excluding any paid-up capital held as treasury shares). Such meeting must be called within 21 days from the date on which the directors become subject to the requirement, and held on a date not more than 28 days after the date of the notice calling the meeting. A meeting called upon the request of shareholders may only deal with the business stated in the request by shareholders, or as proposed by the directors. If the directors fail to call the general meeting requested by the shareholders, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting. Such meeting must be called for a date not more than three months after the date on which the directors become subject to the requirement to call a meeting. Any reasonable expenses incurred by the shareholders requesting the meeting by reason of the failure of the directors duly to call a meeting must be reimbursed by the company.

Notice of General Meetings

Pursuant to the UK Companies Act 2006, an annual general meeting and all other general meetings of BAT must be called by at least 21 clear days' written notice (the "clear days" rule is set out in section 360 of the UK Companies Act 2006 and excludes the day of the meeting and the day that the notice is given). However, the UK Companies Act 2006 allows for this period of notice for meetings other than annual general meetings to be reduced to 14 clear days' notice provided that: (1) the company allows its shareholders to make proxy appointments via a website (such as one hosted by its share registrars); and (2) shareholders must pass a special resolution at the annual general meeting every year approving the shortening of the notice period to 14 days.

A special resolution enabling BAT to hold general meetings (other than annual general meetings) on 14 clear days' notice was approved at the last annual general meeting held on April 25, 2019.

The notice shall specify the place, the date and the time of meeting and the general nature of the business to be transacted, and in the case of an annual general meeting shall specify the meeting as such. Where BAT has given an electronic address in any notice of meeting, any document or information relating to proceedings at the meeting may be sent by electronic means to that address, subject to any conditions or limitations specified in the relevant notice of meeting. Subject to the provisions of the articles of association described above under “—*Untraced shareholders*” and to any rights or restrictions attached to any shares, notices shall be given to all shareholders, to all persons entitled to a share in consequence of the death or bankruptcy of a shareholder and to the BAT directors and to the BAT Group's auditors. Any notice to be given to a shareholder may be given by reference to the register of shareholders as it stands at any time within the period of 21 days before the notice is given; and no change in the register after that time shall invalidate the giving of the notice.

A shareholder whose registered address is not within the United Kingdom or the Republic of South Africa shall be entitled to receive any notice, document or information from BAT if he, she or it gives BAT an address (not being an electronic address) within the United Kingdom or the Republic of South Africa at which notices, documents or information may be sent or if the directors are satisfied that the sending or supplying of such notices, documents or information by BAT to such address outside of the United Kingdom or the Republic of South Africa would not result in BAT breaching any applicable law (whether in the United Kingdom, Republic of South Africa, or elsewhere) or result, directly or indirectly, in BAT being required to comply with additional filing or other regulatory requirements in the United Kingdom, the Republic of South Africa, or any other jurisdiction.

Where, by reason of any suspension or curtailment of postal services, BAT is unable effectively to give notice of a general meeting, the directors may decide that the only persons to whom notice of the affected general meeting must be sent are: the directors; BAT's auditors; those shareholders to whom notice to convene the general meeting can validly be sent by electronic means and those shareholders to whom notification as to the availability of the notice of meeting on a website can validly be sent by electronic means. In any case, BAT shall also: (a) advertise the general meeting in at least two national newspapers published in the United Kingdom; and (b) send or supply a confirmatory copy of the notice to shareholders in accordance with its articles of association if at least seven clear days before the meeting the posting of notices again becomes practicable.

Quorum

No business shall be transacted at any general meeting unless a quorum is present. Two persons entitled to vote upon the business to be transacted, each being a shareholder or a proxy for a shareholder or a duly authorized representative of the corporation which is a shareholder (including for this purpose two persons who are proxies or corporate representatives of the same shareholder), shall be a quorum.

Attendance at General Meetings

All shareholders may attend, speak and vote at BAT general meetings (including annual general meetings). A shareholder is entitled to appoint another person as his, her or its proxy to exercise all or any of his, her or its rights to attend and to speak and vote at a meeting of BAT. The appointment of a proxy shall be deemed also to confer authority to demand or join in demanding a poll. Delivery of an appointment of proxy shall not preclude a shareholder from attending and voting at the meeting or at any adjournment of it. A proxy need not be a shareholder. A shareholder may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him, her or it. An appointment of proxy shall be in writing in any usual form or in any other form which the directors may approve and shall be executed by or on behalf of the appointor which in the case of a corporation may be either under its common seal or under the hand of a duly authorized officer or attorney or other person duly authorized for that purpose. Subject to the provisions of the UK Companies Act 2006, any corporation (other than BAT itself) which is a shareholder of BAT may, by resolution of its directors or other governing body, authorize such person(s) to act as its representative(s) at any meeting of BAT, or at any separate meeting of the holders of any class of shares. BAT may require such person(s) to produce a certified copy of the resolution before permitting him, her or it to exercise his, her or its powers. The directors may (and shall if and to the extent that BAT is required to do so by the UK Companies Act 2006) allow an appointment of proxy to be sent or supplied in electronic form subject to any conditions or limitations as the directors may specify.

The directors or the chairman of the meeting may direct that any person wishing to attend any general meeting should submit to and comply with such searches or other security arrangements as they or he or she consider appropriate in the circumstances. The directors or the chairman of the meeting may in their or his or her absolute discretion refuse entry to, or eject from, any general meeting any person who refuses to submit to a search or otherwise comply with such security arrangements.

The directors or chairman of the meeting may take such action, give such direction or put in place such arrangements as they or he or she consider appropriate to secure the safety of the people attending the meeting and to promote the orderly conduct of the business of the meeting. Any decision of the chairman of the meeting on matters of procedure or matters arising incidentally from the business of the meeting, and any determination by the chairman of the meeting as to whether a matter is of such a nature, shall be final.

The directors may make arrangements for simultaneous attendance and participation by electronic means allowing persons not present together at the same place to attend, speak and vote at the meeting (including the use of satellite meeting places). The arrangements for simultaneous attendance and participation at any place at which persons are participating using electronic means may include arrangements for controlling or regulating the level of attendance at any particular venue provided that such arrangements shall operate so that all shareholders and proxies wishing to attend the meeting are able to attend at one or other of the venues.

DESCRIPTION OF BAT AMERICAN DEPOSITARY SHARES

Citibank, N.A. is the depository bank for the BAT ADSs. Citibank's depository offices are located at 388 Greenwich Street, New York, New York 10013. American Depositary Shares are frequently referred to as ADSs and represent ownership interests in securities that are on deposit with the depository bank. ADSs may be represented by certificates that are commonly known as "American Depositary Receipts" or "ADRs." The depository bank typically appoints a custodian to safekeep the securities on deposit. In this case, the custodian is Citibank, N.A., London Branch, located at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB England.

BAT has appointed Citibank as depository bank pursuant to the deposit agreement. A copy of the deposit agreement and each amendment thereto is on file with the SEC under cover of a Registration Statement on Form F-6EF. A copy of the deposit agreement and each amendment thereto may be obtained from the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 and from the SEC's website at www.sec.gov. Please refer to Registration Number 333-221983 when retrieving such copy.

The following summarizes the material terms of the BAT ADSs and the material rights of owners of BAT ADSs. This summary does not purport to be complete and may not contain all of the important information about the BAT ADSs. The rights and obligations of an owner of BAT ADSs will be determined by reference to the terms of the deposit agreement and not by this summary. The portions of this summary description that are italicized describe matters that may be relevant to the ownership of BAT ADSs but that may not be contained in the deposit agreement.

Each BAT ADS represents the right to receive, and to exercise the beneficial ownership interests in, one BAT ordinary share that is on deposit with the depository bank and/or custodian. A BAT ADS also represents the right to receive, and to exercise the beneficial interests in, any other property (including cash) received by the depository bank or the custodian on behalf of the owners of BAT ADSs but that has not been distributed to the owners of BAT ADSs because of legal restrictions or practical considerations. The BAT ordinary shares deposited with the depository bank and/or the custodian and any and all other securities, property and cash held by the depository bank and/or custodian in respect thereof are referred to as the deposited securities. BAT and the depository bank may agree to change the ADS-to-BAT ordinary share ratio by amending the deposit agreement. This amendment may give rise to, or change, the depository bank services fees payable by BAT ADS owners. The custodian, the depository bank and their respective nominees will hold all deposited securities for the benefit of the holders (i.e., the persons in whose name the BAT ADSs are registered on the books of the depository bank) and beneficial owners of BAT ADSs. The deposited securities do not constitute the proprietary assets of the depository bank, the custodian or their nominees. Beneficial ownership in the deposited securities will under the terms of the deposit agreement be vested in the beneficial owners of the BAT ADSs. The depository bank, the custodian and their respective nominees will be the record holders of the deposited securities represented by the BAT ADSs for the benefit of the holders and beneficial owners of the corresponding BAT ADSs. A beneficial owner of BAT ADSs may or may not be the holder of BAT ADSs. Beneficial owners of BAT ADSs will be able to receive any benefit in, and to exercise beneficial ownership interests in, the deposited securities only through the registered holders of the BAT ADSs, the registered holders of the BAT ADSs (on

behalf of the applicable BAT ADS owners) only through the depositary bank, and the depositary bank (on behalf of the owners of the corresponding BAT ADSs) directly, or indirectly, through the custodian or their respective nominees, in each case upon the terms of the deposit agreement. The depositary bank and BAT may deem and treat the registered holder of an ADS as the absolute owner of such ADS for all purposes and neither the depositary bank nor BAT will have any obligation or be subject to any liability under the deposit agreement or any ADR to any holder or beneficial owner of ADSs unless, in the case of a holder of ADSs, such holder is the registered holder or, in the case of a beneficial owner, such beneficial owner or its representative is the registered holder.

Owners of BAT ADSs become party to the deposit agreement and therefore are bound to its terms and to the terms of any ADR that represents such BAT ADSs. The deposit agreement and the ADRs specify the rights and obligations of BAT as well as the rights and obligations of owners of BAT ADSs and those of the depositary bank. BAT ADS holders appoint the depositary bank to act on their behalf in certain circumstances.

In addition, applicable laws and regulations may require BAT ADS holders to satisfy reporting requirements and obtain regulatory approvals in certain circumstances. BAT ADS holders are solely responsible for complying with such reporting requirements and obtaining such approvals. None of the depositary bank, the custodian, BAT or any of their respective agents or affiliates shall be required to take any actions whatsoever on behalf of BAT ADS holders to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

BAT will not treat an owner of BAT ADSs as one of its shareholders, and BAT ADS holders will not have direct shareholder rights. The depositary bank will hold the shareholder rights attached to the BAT ordinary shares underlying the BAT ADSs. Owners of BAT ADSs will be able to exercise the shareholders rights for the BAT ordinary shares represented by the BAT ADSs through the depositary bank only to the extent contemplated in the deposit agreement. To exercise any shareholder rights not contemplated in the deposit agreement a BAT ADS owner must arrange for the cancellation of their BAT ADSs and become a direct shareholder of BAT.

An Owner of BAT ADSs may hold its BAT ADSs either by means of an ADR registered in its name, through a brokerage or safekeeping account, or through an account established by the depositary bank in its name reflecting the registration of uncertificated BAT ADSs directly on the books of the depositary bank (commonly referred to as the direct registration system or DRS). The direct registration system reflects the uncertificated (book-entry) registration of ownership of BAT ADSs by the depositary bank. Under the direct registration system, ownership of BAT ADSs is evidenced by periodic statements issued by the depositary bank to the holders of the BAT ADSs. The direct registration system includes automated transfers between the depositary bank and the Depository Trust Company, referred to as DTC. If a BAT ADS holder decides to hold BAT ADSs through a brokerage or safekeeping account, the holder must rely on the procedures of the broker or bank to assert its rights as BAT ADS owner. Banks and brokers typically hold securities such as the BAT ADSs through clearing and settlement systems such as DTC. The procedures of such clearing and settlement systems may limit a BAT ADS holder's ability to exercise its rights as an owner of BAT ADSs. All BAT ADSs held through DTC will be registered in the name of a nominee of DTC.

The registration of the BAT ordinary shares in the name of the depositary bank or the custodian shall, to the maximum extent permitted by applicable law, vest in the depositary bank or the custodian the record ownership in the applicable BAT ordinary shares with the beneficial ownership rights and interests in such BAT ordinary shares being at all times vested with the beneficial owners of the BAT ADSs representing the BAT ordinary shares. The depositary bank or the custodian shall at all times be entitled to exercise the beneficial ownership rights in all deposited securities, in each case only on behalf of the holders and beneficial owners of the BAT ADSs representing the deposited securities.

Dividends and Distributions

Holders of BAT ADSs generally have the right to receive the distributions, including dividends, BAT makes on the deposited securities. Receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders of BAT ADSs will receive such distributions under the terms of the deposit agreement in proportion to the number of BAT ADSs held as of the specified record date, after deduction of the applicable fees, taxes and expenses.

Distributions of Cash

Whenever BAT makes a cash distribution, including any cash dividend, on any deposited securities, it will deposit the funds with the custodian. Upon receipt of confirmation of the deposit of the requisite funds, the depositary bank will arrange for the funds received in a currency other than U.S. dollars to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject to the laws and regulations of England and Wales.

The conversion into U.S. dollars will take place only if practicable and if the U.S. dollars are transferable to the United States. The depositary bank will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the custodian in respect of any deposited securities. For further information regarding the conversion of funds into U.S. dollars, see “—*Foreign Currency Conversion*”.

The distribution of cash will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. The depositary bank will hold any cash amounts it is unable to distribute in a non-interest bearing account for the benefit of the applicable holders and beneficial owners of BAT ADSs until the distribution can be effected or the funds that the depositary bank holds must be escheated as unclaimed property in accordance with the laws of the relevant states of the United States.

Distributions of BAT Ordinary Shares

Whenever BAT makes a free distribution, including any dividend, of BAT ordinary shares on the deposited securities, it will deposit the applicable number of BAT ordinary shares with the custodian. Upon receipt of confirmation of such deposit, the depositary bank will either distribute to holders new BAT ADSs representing the BAT ordinary shares deposited or modify the ADS-to-BAT ordinary share ratio, in which case each BAT ADS held will represent rights and interests in the additional BAT ordinary shares so deposited. Only whole new BAT ADSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new BAT ADSs or the modification of the ADS-to-BAT ordinary share ratio upon a distribution of BAT ordinary shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes or governmental charges, the depositary bank may sell all or a portion of the new BAT ordinary shares so distributed.

No such distribution of new BAT ADSs will be made if it would violate a law (e.g., the U.S. securities laws). If the depositary bank does not distribute new BAT ADSs as described above, it may sell the BAT ordinary shares received upon the terms described in the deposit agreement and will distribute the proceeds of the sale as in the case of a distribution of cash.

Distributions of Rights

Whenever BAT intends to distribute to the holders of BAT ordinary shares rights to subscribe for additional BAT ordinary shares, it will give prior notice to the depositary bank and will assist the depositary bank in determining whether it is lawful and reasonably practicable to distribute rights to subscribe for additional BAT ADSs to holders.

The depositary bank will establish procedures to distribute rights to subscribe for additional BAT ADSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of BAT ADSs, and if BAT provides all of the documentation contemplated in the deposit agreement (such as opinions to address the lawfulness of the transaction). BAT ADS holders may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new BAT ADSs upon the exercise of their rights. The depositary bank is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to subscribe for new BAT ordinary shares other than in the form of BAT ADSs.

The depositary bank will not distribute the rights to BAT ADS holders if:

- BAT does not timely request that the rights be distributed to BAT ADS holders;
- BAT requests that the rights not be distributed to BAT ADS holders;
- BAT fails to deliver satisfactory documents to the depositary bank; or
- it is not reasonably practicable to distribute the rights.

The depositary bank, upon consultation with BAT, will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale, net of fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement, will be distributed to holders as in the case of a cash distribution. If the depositary bank is unable to sell the rights, it will allow the rights to lapse.

Elective Distributions

Whenever BAT intends to make a distribution, including any dividend, on BAT ordinary shares payable at the election of shareholders either in cash or in additional BAT ordinary shares, it will give prior notice thereof to the depositary bank and will indicate whether it wishes the elective distribution to be made available to BAT ADS holders. In such case, BAT will assist the depositary bank in determining whether such distribution is lawful and reasonably practicable.

The depositary bank will make the election available to BAT ADS holders only if it is reasonably practicable and if BAT has provided all of the documentation contemplated in the deposit agreement. In such case, the depositary bank will establish procedures to enable BAT ADS holders to elect to receive either cash or additional BAT ADSs, in each case as described in the deposit agreement.

If the election is not made available to BAT ADS holders, they will receive either cash or additional BAT ADSs, depending on what a shareholder in England and Wales would receive upon failing to make an election, as more fully described in the deposit agreement.

Other Distributions

Whenever BAT intends to distribute to the holders of BAT ordinary shares property other than cash, BAT ordinary shares or rights to subscribe for additional BAT ordinary shares, it will notify the depositary bank in advance and will indicate whether it wishes such distribution to be made to BAT ADS holders. If so, BAT will assist the depositary bank in determining whether such distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute such property to BAT ADS holders and if BAT provides to the depositary bank all of the documentation contemplated in the deposit agreement, the depositary bank will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes and governmental charges, the depositary bank may sell all or a portion of the property received.

The depositary bank will *not* distribute the property to BAT ADS holders and will sell the property if:

- BAT does not request that the property be distributed to BAT ADS holders or if BAT requests that the property not be distributed to BAT ADS holders;
- BAT does not deliver satisfactory documents to the depositary bank; or
- the depositary bank determines that all or a portion of the distribution to BAT ADS holders is not reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution.

Redemption

Whenever BAT decides to redeem any of the deposited securities held by the custodian, it will notify the depositary bank in advance. If it is practicable and if BAT provides all of the documentation contemplated in the deposit agreement, the depositary bank will provide notice of the redemption to the holders.

The custodian will be instructed to surrender the shares being redeemed against payment of the applicable redemption price for deposited securities. The depositary bank will convert any redemption funds received in a currency other than U.S. dollars into U.S. dollars upon the terms of the deposit agreement and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their BAT ADSs to the depositary bank. BAT ADS holders may have to pay fees, expenses, taxes and other governmental charges upon the redemption of their BAT ADSs. If less than all BAT ADSs are being redeemed, the BAT ADSs to be retired will be selected by lot or on a *pro rata* basis, as the depositary bank may determine.

Changes Affecting Deposited Securities

The deposited securities represented by BAT ADSs may change from time to time. For example, there may be a change in nominal or par value, split-up, cancellation, consolidation or any other reclassification of such deposited securities or a recapitalization, reorganization, merger, consolidation or sale of assets of BAT.

If any such change were to occur, BAT ADSs would, to the extent permitted by law and the deposit agreement, represent the right to receive the property received or exchanged in respect of the deposited securities. In such circumstances, the depositary bank may, with BAT's approval and if BAT requests, deliver new BAT ADSs, amend the deposit agreement, the ADRs and the applicable Registration Statement(s) on Form F-6, call for the exchange of existing BAT ADSs for new BAT ADSs and take any other actions that are appropriate to reflect as to the BAT ADSs the change affecting the BAT ordinary shares. If the depositary bank may not lawfully distribute such property, the depositary bank may, with BAT's approval and if BAT requests, sell such property and distribute the net proceeds as in the case of a cash distribution.

Issuance of BAT ADSs upon Deposit of BAT Ordinary Shares

The depositary bank may create BAT ADSs on behalf of a BAT ADS holder if it or its broker deposits BAT ordinary shares with the custodian. The depositary bank will deliver these BAT ADSs to the person indicated by the BAT ADS holder only after any applicable issuance fees and any charges and taxes payable for the transfer of the BAT ordinary shares to the custodian are paid. A BAT ADS holder's ability to deposit BAT ordinary shares and receive BAT ADSs may be limited by U.S. and England and Wales legal considerations applicable at the time of deposit.

The issuance of BAT ADSs may be delayed until the depositary bank or the custodian receives confirmation that all required approvals have been given and that the BAT ordinary shares have been duly transferred to the custodian. The depositary bank will only issue BAT ADSs in whole numbers.

When BAT ADS holders make a deposit of BAT ordinary shares, they will be responsible for transferring good and valid title to the depositary bank. As such, they will be deemed to represent and warrant that:

- the BAT ordinary shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained;
- all preemptive (and similar) rights, if any, with respect to such BAT ordinary shares have been validly waived or exercised;
- they are duly authorized to deposit the BAT ordinary shares;
- the BAT ordinary shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, and are not, and the BAT ADSs issuable upon such deposit will not be, “restricted securities” (as defined in the deposit agreement); and
- the BAT ordinary shares presented for deposit have not been stripped of any rights or entitlements.

If any of the representations or warranties are incorrect in any way, BAT and the depositary bank may, at the holder’s cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

Transfer, Combination and Split Up of ADRs

ADR holders will be entitled to transfer, combine or split up their ADRs and the BAT ADSs evidenced thereby. For transfers of ADRs, they will have to surrender the ADRs to be transferred to the depositary bank and also must:

- ensure that the surrendered ADR is properly endorsed or otherwise in proper form for transfer;
- provide any transfer stamps required by the State of New York or the United States; and
- pay all applicable fees, charges, expenses, taxes and other government charges payable by ADR holders pursuant to the terms of the deposit agreement and applicable law, upon the transfer of ADRs.

To have ADRs either combined or split up, BAT ADS holders must surrender the ADRs in question to the depositary bank with a request to have them combined or split up, and they must pay all applicable fees, charges, expenses, taxes and other government charges payable by ADR holders pursuant to the terms of the deposit agreement and applicable law, upon a combination or split up of ADRs.

The depositary bank may require a holder to provide proof of identity and genuineness of any signature and such other documents as the depositary bank may deem appropriate before it will transfer, combine or split up ADRs and the BAT ADSs evidenced thereby.

BAT may restrict transfers of BAT ordinary shares where such transfer might result in ownership of BAT ordinary shares exceeding limits imposed by applicable law or the articles of association of BAT. BAT may also restrict, in such manner as it deems appropriate, transfers of BAT ADSs where such transfer may result in the total number of BAT ordinary shares represented by BAT ADSs owned by a single holder or beneficial owner to exceed any such limits. BAT may, in its sole discretion but subject to applicable law, instruct the depository bank to take action with respect to the ownership interest of any holder or beneficial owner in excess of such limits, including the imposition of restrictions on the transfer of BAT ADSs, the removal or limitation of voting rights or mandatory sale or disposition on behalf of a holder or beneficial owner of the BAT ordinary shares represented by the BAT ADSs held by such holder or beneficial owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and the articles of association of BAT.

Withdrawal of Deposited Securities upon Cancellation of BAT ADSs

Holders will be entitled to present their BAT ADSs to the depository bank for cancellation and then receive the corresponding number of underlying deposited securities at the custodian's offices. The ability to withdraw the deposited securities held in respect of the BAT ADSs may be limited by U.S. and England and Wales legal considerations applicable at the time of withdrawal. In order to withdraw the deposited securities represented by BAT ADSs, holders will be required to pay to the depository bank the fees for cancellation of BAT ADSs and any charges and taxes payable upon the transfer of the deposited securities. BAT ADS holders assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the BAT ADSs will not have any rights under the deposit agreement.

If holders hold BAT ADSs registered in their name, the depository bank may ask them to provide proof of identity and genuineness of any signature and such other documents as the depository bank may deem appropriate before it will cancel their BAT ADSs. The withdrawal of the deposited securities represented by BAT ADSs may be delayed until the depository bank receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the depository bank will only accept BAT ADSs for cancellation that represent a whole number of deposited securities.

BAT ADS holders will have the right to withdraw the deposited securities represented by their BAT ADSs at any time except for:

- temporary delays that may arise because (1) the transfer books for the BAT ordinary shares or BAT ADSs are closed, or (2) the deposit of BAT ordinary shares in connection with voting at a shareholders' meeting or a payment of dividends;
- obligations to pay fees, taxes and similar charges; and
- restrictions imposed because of laws or regulations applicable to BAT ADSs or the withdrawal of the deposited securities.

The deposit agreement may not be modified to impair the right to withdraw the securities represented by BAT ADSs except to comply with mandatory provisions of law.

Voting Rights

Holders generally have the right under the deposit agreement to instruct the depository bank to exercise the voting rights for the BAT ordinary shares represented by their BAT ADSs. For more information on the voting rights of holders of BAT ordinary shares see “*Description of BAT Ordinary Shares—Voting Rights*”.

At BAT’s request, the depository bank will distribute to BAT ADS holders any notice of shareholders’ meeting (or solicitation of consent or proxy) timely received from BAT together with information explaining how to instruct the depository bank to exercise the voting rights of the deposited securities. In lieu of distributing such materials, the depository bank may distribute to holders of BAT ADSs instructions on how to retrieve such materials upon request.

If the depository bank timely receives voting instructions from a holder of BAT ADSs, it will, to the extent practicable and permitted under applicable law, the deposit agreement and the BAT articles of association, endeavor to vote the deposited securities (in person or by proxy) represented by the holder’s BAT ADSs in accordance with such voting instructions as follows:

- *in the event of voting by show of hands*, the depository bank will vote or cause the custodian to vote all BAT ordinary shares held on deposit at that time in accordance with the voting instructions received from a majority of holders of BAT ADSs who provide timely voting instructions; or

Deposited securities for which no voting instructions have been received will not be voted. The ability of the depository bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the deposited securities. BAT cannot assure holders that they will receive voting materials in time to enable them to return voting instructions to the depository bank in a timely manner.

- *in the event of voting by poll*, the depository bank will vote or cause the custodian to vote the BAT ordinary shares held on deposit in accordance with the voting instructions received from the holders of BAT ADSs giving instructions.

Fees and Charges

BAT ADS holders will be required to pay the following fees to the depository bank under the terms of the deposit agreement:

<u>Service</u>	<u>Fees</u>
• Issuance of BAT ADSs upon deposit of BAT ordinary shares (excluding issuances as a result of distributions of shares described below)	Up to U.S. \$0.05 per BAT ADS issued(1)
• Cancellation of BAT ADSs	Up to U.S. \$0.05 per BAT ADS surrendered(1)

- Distribution of cash dividends or other cash distributions (i.e., sale of rights and other entitlements) Up to U.S. \$0.05 per BAT ADS held(2)
 - Distribution of BAT ADSs pursuant to (1) stock dividends or other free stock distributions, or (2) exercise of rights to purchase additional BAT ADSs Up to U.S. \$0.05 per BAT ADS held
 - Depository bank services Up to U.S. \$0.05 per BAT ADS held
- (1) Under the terms of a separate agreement between BAT and the depository bank, the depository bank has agreed to waive the fees that would otherwise be payable in connection with the issuance of BAT ADSs upon deposit of BAT ordinary shares and the cancellation of BAT ADSs and corresponding withdrawal of BAT ordinary shares, in each case by BAT or any of its affiliates, officers, directors or employees. The terms of this separate agreement may be amended at any time by BAT and the depository bank.
 - (2) While under the deposit agreement cash dividends paid in respect of BAT ADSs are subject to a fee of up to \$0.05 per BAT ADS payable to the depository bank, under the terms of the separate agreement between BAT and the depository bank referred to above, such dividends are instead subject to a fee of up to \$0.02 per BAT ADS per year (a fee of \$0.01 per dividend based on the distribution of an interim and a final cash dividend per year or a fee of \$0.005 per dividend based on the current distribution of four quarterly cash dividends per year). Under such separate agreement, this dividend fee may not be varied by the depository bank without the consent of BAT.

BAT ADS holders will also be responsible to pay certain charges such as:

- taxes (including applicable interest and penalties) and other governmental charges;
- the registration fees as may from time to time be in effect for the registration of BAT ordinary shares or other deposited securities on the share register and applicable to transfers of BAT ordinary shares or other deposited securities to or from the name of the custodian, the depository bank or any nominees upon the making of deposits and withdrawals, respectively;
- certain cable, telex and facsimile transmission and delivery expenses;
- the expenses and charges incurred by the depository bank in the conversion of foreign currency;
- the fees and expenses incurred by the depository bank in connection with compliance with exchange control regulations and other regulatory requirements applicable to BAT ordinary shares, or other deposited securities, BAT ADSs and ADRs; and
- the fees and expenses incurred by the depository bank, the custodian, or any nominee in connection with the servicing or delivery of deposited securities.

ADS fees and charges payable upon (1) the issuance of BAT ADSs, and (2) the cancellation of BAT ADSs are charged to the person to whom the BAT ADSs are issued (in the case of BAT ADS issuances) and to the person whose BAT ADSs are canceled (in the case of BAT ADS cancellations). In the case of BAT ADSs issued by the depository bank into DTC, the BAT ADS issuance and cancellation fees and charges may be deducted from distributions made through DTC, and may be charged to the DTC participant(s) receiving the BAT ADSs being issued or the DTC participant(s) holding the BAT ADSs being canceled, as the case may be, on behalf of the beneficial owner(s) and will be charged by the DTC participant(s) to the account of the applicable beneficial owner(s) in accordance with the procedures and practices of the DTC participants as in effect at the time. ADS fees and charges in respect of distributions and the depository bank services fee are charged to the holders as of the applicable ADS record date. In the case of distributions of cash, the amount of the applicable ADS fees and charges is deducted from the funds being distributed. In the case of (1) distributions other than cash and (2) the depository bank services fee, holders as of the ADS record date will be invoiced for the amount of the ADS fees and charges and such ADS fees and charges may be deducted from distributions made to holders of BAT ADSs. For BAT ADSs held through DTC, the ADS fees and charges for distributions other than cash and the depository bank services fee may be deducted from distributions made through DTC, and may be charged to the DTC participants in accordance with the procedures and practices prescribed by DTC and the DTC participants in turn charge the amount of such ADS fees and charges to the beneficial owners for whom they hold BAT ADSs.

In the event of refusal to pay the depository bank's fees and charges, the depository bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depository bank's fees and charges from any distribution to be made to the BAT ADS holder. Note that the fees and charges holders may be required to pay may vary over time and may be changed by BAT and by the depository bank (as described in "*Amendments and Termination*" below). Prior notice of such changes will be provided. The depository bank may reimburse BAT for certain expenses incurred by it in respect of the ADR program, by making available a portion of the ADS fees charged in respect of the ADR program or otherwise, upon such terms and conditions as BAT and the depository bank agree from time to time.

Amendments and Termination

BAT may agree with the depository bank to modify the deposit agreement at any time without consent of BAT ADS holders. BAT must give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the deposit agreement. BAT will not consider to be materially prejudicial to holders' substantial rights any modifications or supplements that are reasonably necessary for the BAT ADSs to be registered under the Securities Act or to be eligible for book-entry settlement, in each case without imposing or increasing the fees and charges they are required to pay. In addition, BAT may not be able to provide holders with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

BAT ADS holders will be bound by the modifications to the deposit agreement if they continue to hold their ADSs after the modifications to the deposit agreement become effective. The deposit agreement cannot be amended to prevent holders from withdrawing the deposited securities represented by their BAT ADSs (except as permitted by law).

BAT has the right to direct the depository bank to terminate the deposit agreement. Similarly, the depository bank may in certain circumstances on its own initiative terminate the deposit agreement. In either case, the depository bank must give notice to the holders at least 30 days before termination. Until termination, BAT ADS holders' rights under the deposit agreement will be unaffected.

After termination, the depository bank will continue to collect distributions received (but will not distribute any such property until a holder requests the cancellation of BAT ADSs) and may sell deposited securities. After the sale, the depository bank will hold the proceeds from such sale and any other funds then held for the holders of BAT ADSs in a non-interest bearing account. At that point, the depository bank will have no further obligations to holders other than to account for the funds then held for the holders of BAT ADSs still outstanding (after deduction of applicable fees, taxes and expenses).

Books of Depository

The depository bank will maintain BAT ADS holder records at its depository office. BAT ADS holders may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the BAT ADSs and the deposit agreement.

The depository bank will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of BAT ADSs. These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The deposit agreement limits the obligations of BAT and the depository bank's obligations to BAT ADS holders. In particular:

- BAT and the depository bank are obligated only to take the actions specifically stated in the deposit agreement and to do so without negligence or bad faith;
- the depository bank disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the deposit agreement;
- the depository bank disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to you on BAT's behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in BAT ordinary shares, for the validity or worth of the BAT ordinary shares, for any tax

consequences that result from the ownership of BAT ADSs, for the creditworthiness of any third party, for allowing any rights to lapse under the terms of the deposit agreement, for the timeliness of any notices from BAT or for BAT's failure to give notice;

- BAT and the depositary bank will not be obligated to perform any act that is inconsistent with the terms of the deposit agreement;
- BAT and the depositary bank disclaim any liability if BAT or the depositary bank are prevented or forbidden from or subject to any civil or criminal penalty or restraint on account of, or delayed in, doing or performing any act or thing required by the terms of the deposit agreement, by reason of any provision, present or future of any law or regulation, or by reason of present or future provision of any provision of the BAT articles of association, or any provision of or governing the deposited securities, or by reason of any act of God or war or other circumstances beyond their control;
- BAT and the depositary bank disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the deposit agreement or in the BAT articles of association or in any provisions of or governing deposited securities;
- BAT and the depositary bank further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting ordinary shares for deposit, any holder of BAT ADSs or authorized representatives thereof, or any other person believed by either BAT or the depositary bank in good faith to be competent to give such advice or information;
- BAT and the depositary bank also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit that is made available to holders of deposited securities but is not, under the terms of the deposit agreement, made available to BAT ADS holders;
- BAT and the depositary bank may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties;
- BAT and the depositary bank also disclaim liability for any consequential or punitive damages for any breach of the terms of the deposit agreement; and
- no disclaimer of any Securities Act liability is intended by any provision of the deposit agreement.

Taxes

BAT ADS holders are responsible for the taxes and other governmental charges payable on the BAT ADSs and other deposited securities represented by the BAT ADSs. BAT, the depositary bank and the custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. Holders will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The depositary bank may refuse to issue BAT ADSs, to deliver, transfer, split and combine ADRs or to release deposited securities until all taxes and charges are paid by the applicable holder. The depositary bank and the custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on behalf of a BAT ADS holder. However, holders may be required to provide to the depositary bank and to the custodian proof of taxpayer status and residence and such other information as the depositary bank and the custodian may require to fulfill legal obligations. BAT ADS holders are required to indemnify BAT, the depositary bank and the custodian for any claims with respect to taxes based on any tax benefit obtained for them.

Foreign Currency Conversion

The depositary bank will arrange for the conversion of all foreign currency received into U.S. dollars if such conversion is practical, and it will distribute the U.S. dollars in accordance with the terms of the deposit agreement. BAT ADS holders may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practical or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the depositary bank may take the following actions in its discretion:

- convert the foreign currency to the extent practical and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practical;
- distribute the foreign currency to holders for whom the distribution is lawful and practical; or
- hold the foreign currency (without liability for interest) for the applicable holders.

Governing Law

The deposit agreement and the ADRs are governed by the laws of the State of New York. The rights of holders of BAT ordinary shares (including BAT ordinary shares represented by BAT ADSs) are governed by the laws of England and Wales and the BAT articles of association. For further information regarding the material terms of the BAT ordinary shares, see “*Description of BAT Ordinary Shares*”.

B. Description of the Notes Issued Under the BATIF Indenture

The following is a summary of the material provisions of the BATIF Indenture (as described below), the applicable supplemental indenture and the BATIF Notes. Any capitalized term used herein but not defined shall have the meaning assigned to such term in the BATIF Indenture, the applicable supplemental indenture or under “—Certain Definitions”. The following summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the BATIF Indenture, the applicable supplemental indenture and those terms made a part of the BATIF Indenture and/or applicable supplemental indenture by reference to the Trust Indenture Act of 1939, as amended (the “TIA”).

GENERAL

The 1.668% Notes due 2026 (the “BATIF Notes”) were issued by B.A.T. International Finance p.l.c. (“BATIF” or the “Issuer”).

The BATIF Notes will mature on March 25, 2026.

The BATIF Notes were issued in registered form and treated as a single series of debt securities and were issued under a supplemental indenture to the indenture dated as of September 25, 2020 (as amended or supplemented from time to time, the “BATIF Indenture”) by and among BATIF, as Issuer, British American Tobacco p.l.c. (“BAT” or the “Parent”), B.A.T Capital Corporation (“BATCAP”), B.A.T. Netherlands Finance B.V. (“BATNF”) and, unless its guarantee is released in accordance with the BATIF Indenture, Reynolds American Inc. (“RAI”), each as a guarantor, Citibank, N.A., as trustee (the “Trustee”), registrar, transfer agent, calculation agent and initial paying agent (in such several capacities under the BATIF Indenture, the “Registrar”, “Transfer Agent”, “Calculation Agent”, and “Paying Agent”, respectively).

Each guarantee in respect of the BATIF Notes is referred to herein as a “Guarantee” and each entity that provides a Guarantee is referred to herein as a “Guarantor”. In this “Description of the Notes Issued Under the BATIF Indenture”, the terms “holder”, “Noteholder” and other similar terms refer to a “registered holder” of BATIF Notes, and not to a beneficial owner of a book-entry interest in any BATIF Notes.

PRINCIPAL, MATURITY AND INTEREST

The obligations of the Issuer under the BATIF Notes and BATIF Indenture are fully and unconditionally guaranteed on a joint and several, and senior and unsecured basis by each of the Parent, BATCAP, BATNF and, unless its guarantee is released in accordance with the BATIF Indenture, RAI.

The BATIF Notes were initially issued in an aggregate principal amount of \$1,500,000,000, with a maturity date of March 25, 2026. The BATIF Notes bear interest per annum at a rate of 1.668%.

The BATIF Notes will bear interest from the date of the initial issuance of such BATIF Notes or from the most recent interest payment date to which interest has been paid or provided for, payable semi-annually in arrears on March 25 and September 25 of each year, commencing on March 25, 2021 (each, an “Interest Payment Date”) until the maturity date, unless previously purchased and cancelled or redeemed by the Issuer, to the person in whose name any BATIF Note is registered at the close of business on the 15th calendar day preceding each Interest Payment Date, whether or not such day is a Business Day (each, a “Record Date”)

notwithstanding any transfer or exchange of such BATIF Notes subsequent to the Record Date and prior to such Interest Payment Date, except that, if and to the extent the Issuer shall default in the payment of the interest due on such Interest Payment Date, and the applicable grace period shall have expired, such defaulted interest may at the option of the Issuer be paid to the persons in whose names the outstanding BATIF Notes are registered at the close of business on a subsequent Record Date (which shall not be less than five Business Days prior to the date of payment of such defaulted interest) established by notice sent by or on behalf of the Issuer to the holders of BATIF Notes, not less than 15 days preceding such subsequent Record Date. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months, or in the case of an incomplete month, the number of days elapsed. If the date on which any interest payment or principal payment is to be made is not a Business Day, such payment will be made on the next day which is a Business Day, without any further interest or other amounts being paid or payable in connection therewith. A “Business Day” refers to any day which is not, in London or New York City, or any other place of payment, a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized or obligated by law or regulation to close.

Form and Denomination

The BATIF Notes were issued in fully registered form and only in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof, and were issued initially as global notes representing the BATIF Notes (collectively, the “BATIF Global Notes”). The BATIF Global Notes were (i) registered in the name of the Depository or the nominee of such Depository, in each case for the credit to an account of a member of, or direct or indirect participant in, the Depository; and (ii) delivered to Citibank, N.A. as custodian for such Depository.

Further Issues

The aggregate principal amount of notes (including the BATIF Notes) issuable under the BATIF Indenture (the “Notes”) is unlimited. The Issuer may, from time to time, without notice to or the consent of the holders of the BATIF Notes, issue Notes of a new series or “reopen” any series of the Notes (including the BATIF Notes) and create and issue additional notes having substantially identical terms and conditions as the then-outstanding Notes of a series (including the BATIF Notes) (or in all respects except as to issue date, issue price, denomination, rate of interest, maturity date and the date from which interest, if any, shall accrue and except as may otherwise be provided in or pursuant to an officer’s certificate or any supplemental indenture relating thereto) so that the additional Notes are consolidated and form a single series of Notes with the outstanding Notes of such series, as the case may be; *provided* that if the additional Notes are not fungible with the outstanding Notes of the relevant series for United States Federal income tax purposes, the additional Notes will have separate CUSIPs, ISINs, or other identifying numbers.

Status of the BATIF Notes and Guarantees

The BATIF Notes are unsecured and unsubordinated obligations of the Issuer and rank *pari passu* in right of payment among themselves and with all other direct, unsecured and unsubordinated obligations of the Issuer (except those obligations preferred by statute or operation of law). Each Guarantor fully and unconditionally guarantees, on a senior, unsecured

basis, the due and punctual payment (and not collectability) of the principal of and interest on the BATIF Notes (and the payment of additional amounts described under “—*Additional Amounts*” below) and other obligations under the BATIF Indenture when and as the same shall become due and payable, whether at stated maturity, by declaration of acceleration, call for redemption or otherwise. Each Guarantee is an unsecured and unsubordinated obligation of the respective Guarantor and rank *pari passu* in right of payment with all other direct, unsecured and unsubordinated obligations of such Guarantor (except those obligations preferred by statute or operation of law). The Issuer and each Guarantor are subject to a negative pledge with respect to certain types of indebtedness, which are discussed below under “—*Covenants of the Issuer and the Guarantors—Negative Pledge*”.

Guarantees

Release

The BATIF Indenture and the applicable supplemental indenture provide that, without the consent of the Trustee or the Noteholders, any Guarantor that is a subsidiary of the Parent (a “Subsidiary Guarantor”), other than BATCAP and BATNF, will automatically and unconditionally be released from all obligations under its Guarantee, and such Guarantee shall thereupon terminate and be discharged and of no further force or effect, in the event that (1) its guarantee of all then outstanding notes issued under the EMTN Programme is released or (2) at substantially the same time its Guarantee is terminated, the Subsidiary Guarantor is released from all obligations in respect of indebtedness for borrowed money for which such Subsidiary Guarantor is an obligor (as a guarantor or borrower). For purposes of this paragraph, the amount of a Subsidiary Guarantor’s indebtedness for borrowed money shall not include (A) the Notes (including the BATIF Notes) issued pursuant to the BATIF Indenture, (B) any other debt the terms of which permit the termination of such Subsidiary Guarantor’s guarantee of such debt under similar circumstances, as long as such Subsidiary Guarantor’s obligations in respect of such other debt are terminated at substantially the same time as its Guarantee of the Notes (including the BATIF Notes), (C) any debt that is being refinanced at substantially the same time that the Guarantee of the Notes (including the BATIF Notes) is being released, provided that any obligations of the relevant Subsidiary Guarantor in respect of the debt that is incurred in the refinancing shall be included in the calculation of the relevant Subsidiary Guarantor’s indebtedness for borrowed money and (D) for the avoidance of doubt, any debt in respect of which such Subsidiary Guarantor is an obligor (as a guarantor or borrower) (i) between or among the Parent and any subsidiary or subsidiaries thereof or (ii) between or among any subsidiaries of the Parent.

As of the date of this summary, RAI is the only Subsidiary Guarantor to which the above provision is relevant. Under the EMTN Programme, a Subsidiary Guarantor’s guarantee is released if at any time the aggregate amount of indebtedness for borrowed money for which the Subsidiary Guarantor is an obligor does not exceed 10% of the outstanding long-term debt of BAT as reflected in the balance sheet included in BAT’s most recent publicly released interim or annual consolidated financial statements, as evidenced by a certificate to such effect addressed to the trustee under the EMTN Programme and signed by a director of BAT.

Additional Amounts

The Issuer or, if applicable, each Guarantor will make payments of, or in respect of, principal, premium (if any) and interest on the BATIF Notes, or any payment pursuant to the applicable Guarantee, as the case may be, without withholding or deduction for or on account of any present or future tax, levy, impost or other similar governmental charge (“Taxes”) imposed, assessed, levied or collected by or for the account of the United Kingdom, The Netherlands (in the case of a payment by BATNF) or the United States (in the case of a payment by BATCAP or RAI), including in each case any political subdivision thereof or any authority thereof having the power to tax (a “Relevant Taxing Jurisdiction”), unless such withholding or deduction is required by law.

If the Issuer or, if applicable, any such Guarantor is required by a Relevant Taxing Jurisdiction to so withhold or deduct such Taxes, the Issuer or, if applicable, such Guarantor will pay to the Holder such additional amounts (“Additional Amounts”) as will result in the receipt by the Holder of such amounts as would have been received by it if no such withholding or deduction of Taxes had been required; provided, however, that amounts with respect to any United States Tax shall be payable only to Holders that are not United States persons (within the meaning of the Code) and provided further, that neither the Issuer nor such Guarantor shall be required to pay any Additional Amounts for or on account of:

- (a) any Taxes that would not have been so imposed, assessed, levied or collected but for the Holder or beneficial owner of the applicable Note or Guarantee (or a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of a power over, such Holder, if such Holder is an estate, trust, partnership or corporation) being or having been a domiciliary, national or resident of, or engaging or having been engaged in a trade or business, maintaining or having maintained a permanent establishment or being or having been physically present in, a Relevant Taxing Jurisdiction or otherwise having or having had some connection with a Relevant Taxing Jurisdiction other than the holding or ownership of, or the collection of principal of, and premium (if any) or interest on, a Note or the enforcement of the applicable Guarantee, as the case may be;
- (b) any Taxes that would not have been so imposed, assessed, levied or collected but for the fact that, where presentation is required in order to receive payment, the applicable Note or Guarantee was presented more than 30 days after the date on which such payment became due and payable or was provided for, whichever is later, except to the extent that the Holder or beneficial owner thereof would have been entitled to Additional Amounts had the applicable Note or Guarantee been presented for payment on any day during such 30-day period;
- (c) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;
- (d) any Taxes that are payable otherwise than by withholding or deduction from payments on or in respect of the applicable Note or Guarantee;

- (e) any Taxes that would not have been so imposed, assessed, levied or collected but for the failure by the Holder or the beneficial owner of the applicable Note or Guarantee to (i) provide any certification, identification, information, documents or other evidence concerning the nationality, residence or identity of the Holder or the beneficial owner or its connection with a Relevant Taxing Jurisdiction; or (ii) make any valid or timely declaration or claim or satisfy any other reporting, information or procedural requirements relating to such matters if, in either case, compliance is required by statute, regulation, relevant income tax treaty or administrative practice of a Relevant Taxing Jurisdiction as a condition to relief or exemption from such Taxes;
- (f) any Taxes imposed by reason of the Holder or the beneficial owner of the applicable Note or Guarantee being or having been considered a bank receiving payments on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business, as described in Section 881(c)(3)(A) of the Code (or any amended or successor provisions);
- (g) any Taxes imposed on interest received by a 10-percent shareholder of the Issuer or any Guarantor within the meaning of Section 871(h)(3)(B) or Section 881(c)(3)(B) of the Code (or any amended or successor provisions);
- (h) any backup withholding imposed pursuant to Section 3406 of the Code (or any amended or successor provisions);
- (i) any Taxes imposed pursuant to Section 871(h)(6) or Section 881(c)(6) of the Code (or any amended or successor provisions);
- (j) any Taxes imposed by reason of the Holder or the beneficial owner of the applicable Note or Guarantee being or having been a personal holding company, passive foreign investment company or controlled foreign corporation for U.S. Federal income tax purposes or a corporation that has accumulated earnings to avoid U.S. Federal income tax;
- (k) any Taxes imposed or withheld pursuant to Sections 1471 through 1474 of the Code (or any amended or successor provisions), any U.S. Treasury regulations promulgated thereunder, any official interpretations thereof or any agreements entered into in connection with the implementation thereof (“FATCA Withholding”); or
- (l) any combination of the Taxes described in clauses (a) through (k) above.

In addition, Additional Amounts will not be paid with respect to any payment of the principal of, or premium (if any) or interest on, any BATIF Note or any payment pursuant to the applicable Guarantee to any Holder that is a fiduciary, a partnership, a limited liability company or any person other than the sole beneficial owner of such payment to the extent a beneficiary or settlor with respect to such fiduciary, a member of such partnership, an interest holder in such limited liability company or a beneficial owner that would not have been entitled to such amounts had such beneficiary, settlor, member, interest holder or beneficial owner been the Holder of the applicable BATIF Note or Guarantee.

Unless otherwise stated, references in any context to the payment of principal of, and premium (if any) or interest on, any BATIF Note, or any payment pursuant to a Guarantee, will be deemed to include payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

In addition to the exceptions and limitations described above, neither the Issuer nor any Guarantor shall be required to pay any Additional Amounts for or on account of any taxes imposed or to be withheld pursuant to the Dutch Withholding Tax Act 2021 (*Wet bronbelasting 2021*).

Redemption

The BATIF Notes are subject to optional redemption by the Issuer as described below under “—*Optional Redemption*”. The BATIF Notes are subject to optional redemption by the Issuer in the event of certain changes in tax laws applicable to payments in respect of the BATIF Notes as described below under “—*Redemption for Tax Reasons*”.

Optional Redemption

The Issuer may redeem the BATIF Notes, in whole or in part, at the Issuer’s option, at any time and from time to time before the Par Call Date (as defined below), at a redemption price equal to the greater of (x) 100% of the principal amount of the BATIF Notes to be redeemed and (y) as determined by the Independent Investment Banker (as defined below), the sum of the present values of the applicable Remaining Scheduled Payments (as defined below) discounted to the date of redemption (the “Redemption Date”) on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months or, in the case of an incomplete month, the number of days elapsed) at the Treasury Rate (as defined below) plus 25 basis points, together with accrued and unpaid interest on the principal amount of the BATIF Notes to be redeemed to, but excluding, the Redemption Date.

If the Issuer elects to redeem a series of the BATIF Notes on or after the Par Call Date, the Issuer will pay an amount equal to 100% of the principal amount of the BATIF Notes redeemed, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

In connection with such optional redemption the following defined terms apply:

- Comparable Treasury Issue means the United States Treasury security selected by the Independent Investment Banker that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the BATIF Notes to the Par Call Date.
- Comparable Treasury Price means, with respect to any Redemption Date, (A) the average of the Reference Treasury Dealer Quotations for that Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer

Quotations or (B) if the Independent Investment Banker for the BATIF Notes obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Quotations.

- Independent Investment Banker means one of the Reference Treasury Dealers (as defined below) appointed by the Issuer to act as the “Independent Investment Banker”.
- Par Call Date means February 25, 2026 (one month prior to the maturity date of the BATIF Notes).
- Reference Treasury Dealer means each of BofA Securities, Inc., Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC, NatWest Markets Securities Inc., SG Americas Securities, LLC and Wells Fargo Securities, LLC and their respective successors and two other nationally recognized investment banking firms that are Primary Treasury Dealers specified from time to time by the Issuer; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a “Primary Treasury Dealer”), the Issuer shall substitute therefor another nationally recognized investment banking firm that is a Primary Treasury Dealer.
- Reference Treasury Dealer Quotation means, with respect to each Reference Treasury Dealer and any Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day immediately preceding that Redemption Date.
- Remaining Scheduled Payments means, with respect to each BATIF Note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due from and including the related Redemption Date, but for such redemption, to but excluding the Par Call Date; provided, however, that if that Redemption Date is not an Interest Payment Date with respect to such BATIF Notes, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that Redemption Date.
- Treasury Rate means, with respect to any Redemption Date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third Business Day immediately preceding that Redemption Date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that Redemption Date.

Notice of any optional redemption will be given in accordance with the BATIF Indenture at least 10 days but not more than 30 days before the Redemption Date to each holder of the BATIF

Notes to be redeemed. Any redemption may, at the Issuer's sole discretion, be subject to the satisfaction of one or more conditions precedent. In the event of a conditional redemption, the notice of conditional redemption shall reflect and specify the conditions to the redemption. Once the notice of redemption is delivered, BATIF Notes called for redemption shall, subject to the satisfaction of any applicable conditions, become irrevocably due and payable on the Redemption Date.

If less than all the BATIF Notes are to be redeemed, in the case of a redemption at the Issuer's option as discussed in this section, the BATIF Notes to be redeemed shall be selected in accordance with applicable procedures of DTC.

Upon presentation of any BATIF Note redeemed in part only, the Issuer will execute and upon receipt of a written direction from the Issuer, the Paying Agent will authenticate and deliver (or cause to be transferred by book-entry) to, or on, the order of the holder thereof, at the expense of the Issuer, a new BATIF Note of authorized denominations in principal amount equal to the unredeemed portion of the BATIF Note so presented.

The redemption price shall be calculated by the Independent Investment Banker and the Issuer, and the Trustee and any agent shall be entitled to rely on such calculation.

Redemption for Tax Reasons

Each series of Notes (including the BATIF Notes) is also redeemable by the Issuer, in whole but not in part, at 100% of the principal amount of such Notes plus any accrued and unpaid interest (including any Additional Amounts) to the applicable date fixed for such redemption pursuant to the terms of the BATIF Indenture or such series of Notes (the "Redemption Date") at the Issuer's option at any time prior to their maturity if, due to a Change in Tax Law (as defined below): (i) the Issuer or any Guarantor, in accordance with the terms of the applicable Notes or applicable Guarantee, has, or would, become obligated to pay any Additional Amounts to the Holders of the Notes of that series; (ii) in the case of any Guarantor, (A) the Parent would be unable, for reasons outside its control, to procure payment by the Issuer or any other Guarantor or (B) the procuring of such payment by the Issuer and each such other Guarantor would be subject to withholding Taxes imposed by a Relevant Taxing Jurisdiction; and (iii) such obligation cannot otherwise be avoided by such Guarantor, the Parent or the Issuer, taking reasonable measures available to it. In such case, the Issuer may redeem the applicable Notes upon not less than 30 nor more than 60 days' notice as provided in "*—Notice*" below, at 100% of the principal amount of such Notes plus accrued and unpaid interest to the Redemption Date (including Additional Amounts); *provided* that (a) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or such Guarantor, as the case may be, would be obligated to pay any such Additional Amounts in respect of the applicable Notes or applicable Guarantee, as applicable, then due; and (b) at the time such notice is given, such obligation to pay such Additional Amounts remains in effect. The Issuer's right to redeem the applicable Notes shall continue as long as the Issuer or any Guarantor is obligated to pay such Additional Amounts, notwithstanding that the Issuer or such Guarantor, as the case may be, shall have made payments of Additional Amounts. Prior to the giving of any such notice of redemption, the Issuer must deliver to the Trustee: (i) an officer's certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the

right of the Issuer to so redeem have occurred; and (ii) an opinion of independent counsel or an independent accountant of recognized standing, selected by the Issuer or any Guarantor, as applicable, with respect to tax matters of the Relevant Taxing Jurisdiction to the effect that the Issuer or such Guarantor has, or would, become obligated to pay such Additional Amounts as a result of such Change in Tax Law.

For the purposes hereof, "Change in Tax Law" shall mean: (i) any changes in, or amendment to, any law of a Relevant Taxing Jurisdiction (including any regulations or rulings promulgated thereunder and including, for this purpose, any treaty entered into by the Relevant Taxing Jurisdiction) or any amendment to or change in the application or official interpretation (including judicial or administrative interpretation) of such law, which change or amendment becomes effective or, in the case of an official interpretation, is announced, on or after the first date of issuance of Notes of such series; or (ii) if the Issuer or any Guarantor consolidates, merges, amalgamates or combines with, or transfers or leases its assets substantially as an entirety to, any person that is incorporated or tax resident under the laws of any jurisdiction other than a Relevant Taxing Jurisdiction (a "successor") and as a consequence thereof such person becomes the successor obligor to the Issuer or such Guarantor in respect of Additional Amounts that may become payable (in which case, for purposes of this redemption provision, all references to the Issuer or such Guarantor shall be deemed to be and include references to such person), any change in, or amendment to, any law of the jurisdiction of organization or tax residence of such successor, or the jurisdiction through which payments will be made by the successor, or any political subdivision or taxing authority thereof or thereon for purposes of taxation (including any regulations or rulings promulgated thereunder and including, for this purpose, any treaty entered into by such jurisdiction) or any amendment to or change in the application or official interpretation (including judicial or administrative interpretation) of such law, which change or amendment becomes effective or, in the case of an official interpretation, is announced, on or after the date of such consolidation, merger, amalgamation, combination or other transaction.

General

On or before any Redemption Date (as defined above), the Issuer shall deposit with the Paying Agent money sufficient to pay the redemption price of and accrued and unpaid interest on the BATIF Notes to be redeemed on such date.

On and after any Redemption Date, interest will cease to accrue on the BATIF Notes or any portion thereof called for redemption.

Maturity

Unless previously purchased or redeemed by the Issuer, and cancelled, the principal amount of each respective series of BATIF Notes shall mature on March 25, 2026, in an amount equal to their principal amount, with accrued and unpaid interest to, but excluding, such date.

Covenants of the Issuer and the Guarantors

Reacquisition

There is no restriction on the ability of the Issuer to purchase or repurchase Notes (including the BATIF Notes), provided, that any Notes so repurchased shall be cancelled and not reissued.

Sinking Fund

There is no provision for a sinking fund for any of the Notes (including the BATIF Notes).

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the BATIF Notes, the BATIF Indenture and the applicable supplemental indenture. You should refer to the BATIF Notes, the BATIF Indenture and applicable supplemental indenture for the full definition of all defined terms as well as any other terms used herein for which no definition is provided.

“Dollar” or “\$” means United States dollars, or such other money of the United States that at the time of payment is legal tender for payment of public and private debts.

“EMTN Programme” means the Euro Medium Term Note Programme to which BATCAP, BATIF and BATNF are parties as the issuers under the programme and notes issued thereunder are guaranteed by the Parent, each of the issuers thereunder (except when it is the relevant issuer) and RAI, as amended from time to time.

“Original Issue Discount Note” means any Note that is issued with “original issue discount” within the meaning of Section 1273(a) of the Code and Treasury Regulations promulgated thereunder and any other Note designated by the Company as issued with original issue discount for United States federal income tax purposes.

“Person” means any individual, corporation, partnership, joint venture, association, limited liability company, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Quoted Borrowing” means any indebtedness which: (i) is represented by notes, debentures or other securities issued otherwise than to constitute or represent advances made by banks and/or other lending institutions; (ii) is denominated, or confers any right to payment of principal and/or interest, in or by reference to any currency other than the currency of the country in which the issuer of the indebtedness has its principal place of business or is denominated, or confers any right to payment of principal and/or interest, in or by reference to the currency of such country but is sold or subscribed by or on behalf of, or by agreement with, the issuer of such indebtedness as to over 20% outside such country; and (iii) at its date of issue is, or is intended by the issuer of such indebtedness to become, quoted, listed, traded or dealt in on any stock exchange or other organized and regulated securities market in any part of the world.

Negative Pledge

The BATIF Indenture provides that so long as any of the Notes (including the BATIF Notes) remains outstanding, neither the Issuer nor any Guarantor will secure or allow to be secured any Quoted Borrowing issued by the Issuer or any Guarantor or any payment under any guarantee by any of them of any such Quoted Borrowing by any mortgage, charge, pledge or lien (other than arising by operation of law) upon any of its undertaking or assets, whether present or future, unless at the same time the same mortgage, charge, pledge or lien is extended, or security which is not materially less beneficial to the holders of the Notes than the security given as aforesaid or which shall be approved by consent of the holders of not less than 75% in aggregate principal amount of the Notes at the time outstanding is extended or created (as the case may be), to secure equally and ratably the principal of, and interest on, and all other payments (if any) in respect of the Notes.

Limitation on Mergers, Consolidations, Amalgamations and Combinations

Under the BATIF Indenture, so long as any of the Notes (including the BATIF Notes) remains outstanding thereunder, neither the Issuer nor any Guarantor may consolidate with or merge into any other person or sell, convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to any person (other than any sale or conveyance by way of a lease in the ordinary course of business), unless: (i) in the case of the Issuer, any successor person assumes the Issuer's obligations on the Notes (including the BATIF Notes) and under the BATIF Indenture and, in the case of any Guarantor, any successor person assumes such Guarantor's obligations on the Guarantee and under the BATIF Indenture; (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; (iii) such successor person is organized under the laws of the United States or any State thereof, the United Kingdom, The Netherlands or any other country that is a member of the Organization for Economic Cooperation and Development as of the date of such succession; (iv) such successor person agrees to pay any Additional Amounts with respect to any withholding or deduction of Taxes or any payment on the Notes (including the BATIF Notes) or Guarantees (as applicable) imposed by the jurisdiction (other than the United States, unless otherwise required by clause (i) of this paragraph) in which such successor person is incorporated or otherwise a resident for tax purposes subject to the exceptions described under "*Additional Amounts*" (for the avoidance of doubt, solely to the extent such successor person is the Issuer, changes will be made to the BATIF Indenture as are necessary to obligate the Issuer to pay such Additional Amount); and (v) if as a result of such consolidation or merger or such sale, conveyance, transfer or lease, properties or assets of the Issuer or any Guarantor would become subject to a mortgage, pledge, security interest, lien or similar encumbrance to secure payment of any indebtedness for borrowed money of the Issuer or any Guarantor which would not be permitted by the Notes of a series or under the BATIF Indenture, the Issuer or any Guarantor or such successor person, as the case may be, shall take such steps as shall be necessary to effectively secure the Notes of such series equally and ratably with (or prior to) all indebtedness for borrowed money secured thereby.

The limitation on mergers, consolidations, amalgamations and combinations described in this section “—*Limitation on Mergers, Consolidations, Amalgamations and Combinations*” shall not apply to any consolidation, merger, amalgamation or combination in which the Issuer or any Guarantor is the surviving corporation except that, in such case, the provisions of (ii) and (v) above shall apply such that: (x) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and (y) if as a result of such consolidation or merger or such sale, conveyance, transfer or lease, properties or assets of the Issuer or any Guarantor would become subject to a mortgage, pledge, security interest, lien or similar encumbrance to secure payment of any indebtedness for borrowed money of the Issuer or any Guarantor which would not be permitted by the Notes or under the BATIF Indenture, the Issuer or any Guarantor, as the case may be, shall take such steps as shall be necessary to effectively secure the Notes equally and ratably with (or prior to) all indebtedness for borrowed money secured thereby.

The BATIF Indenture does not contain covenants or other provisions to afford protection to holders of the Notes in the event of a highly leveraged transaction or a change in control of the Issuer or any Guarantor except as provided above.

Upon certain mergers or consolidations involving the Issuer or any Guarantor, or upon certain sales or conveyances of all or substantially all of the assets of the Issuer or any Guarantor, the obligations of the Issuer or such Guarantor, under the applicable Notes or the applicable Guarantee, shall be assumed by the person formed by such merger or consolidation or which shall have acquired such assets and upon such assumptions such person shall succeed to and be substituted for the Issuer or such Guarantor, as the case may be, and then the Issuer or such Guarantor will (except in the case of a lease) be relieved of all obligations and covenants under the BATIF Indenture, the Notes and the applicable Guarantee, as the case may be. The terms “Issuer” and “Guarantor”, as used in the Notes and the BATIF Indenture, also refer to any such successors or assigns so substituted.

Although there is a limited body of case law interpreting the phrase “entirety or substantially as an entirety”, there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of “entirety or substantially as an entirety” of the Issuer’s assets and its subsidiaries taken as a whole.

Events of Default

Each of the following events shall be an “Event of Default” with respect to any series of the Notes (including the BATIF Notes):

- (i) *Non-Payment*: default is made in the payment of: (a) any installment of interest (excluding Additional Amounts) upon any applicable Note as and when the same shall become due and payable, and there is a continuance of such default for a period of 14 days or more; (b) applicable Additional Amounts as and when the same shall become due and payable, and there is a continuance of such default for a period of 14 days; or (c) all or any part of the principal or premium, if any, of

any applicable Note as and when the same shall become due and payable either at maturity, upon any redemption, by declaration or otherwise, and there is a continuance of such default for a period of three days;

- (ii) *Breach of Other Obligations*: the Issuer or any Guarantor does not perform or comply with any one or more of its other obligations under the applicable Notes or the BATIF Indenture (other than those described in paragraph (i) above) which is not remedied within 30 days (unless a longer period is specified in the BATIF Indenture) after written notice of such default shall have been given to the Issuer by the Trustee or to the Issuer and the Trustee by the holders of at least 25% of the outstanding principal amount of the Notes;
- (iii) *Cross-Default*: (a) any other present or future indebtedness for borrowed money of the Issuer or any Guarantor, other than the Notes issued by the Issuer, becomes due and payable prior to its stated maturity by reason of any default or event of default in respect thereof by the Issuer or any Guarantor and remains unpaid; or (b) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period; or (c) the Issuer or any Guarantor fails to pay when due and called upon (after the expiry of any applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money and which remains unpaid; provided that (x) payment of the indebtedness for borrowed money is not being contested in good faith and in accordance with legal advice or (y) the aggregate amount of the indebtedness for borrowed money, guarantees and indemnities in respect of which one or more of the events mentioned above in clauses (a), (b) and (c) of this paragraph (iii) has or have occurred and is or are continuing, equals or exceeds £750 million or its equivalent in any other currency of the indebtedness for borrowed money or, if greater, 1.25% of the Total Equity of the Parent, as set out in the “Total Equity” line item in the most recent consolidated group balance sheet of the Parent and its subsidiaries in the Parent’s most recent annual report;
- (iv) *Cessation of Guarantees*: any Guarantee ceases to be in full force and effect (except as contemplated by the terms of the BATIF Indenture, including as described above under “—Guarantees—Release”) or any Guarantor denies or disaffirms in writing its obligations under the BATIF Indenture or Guarantee;
- (v) *Enforcement Proceedings*: a distress or execution or other legal process is levied or enforced against or an encumbrancer takes possession of or a receiver, administrative receiver or other similar officer is appointed of the whole or a part of the assets of the Issuer or any Guarantor which is substantial in relation to the BAT Group taken as a whole and is not discharged, stayed, removed or paid out within 45 days after such execution or appointment;
- (vi) *Security Enforced*: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Guarantor becomes enforceable against all or substantially all of the assets of the Issuer or any

Guarantor, and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person) and is not discharged within 45 days;

- (vii) *Insolvency*: the Issuer or any Guarantor is insolvent or bankrupt or unable to pay its debts (in respect of companies incorporated in England and Wales, within the meaning of Section 123(1)(b) or (e) or Section 123(2) of the UK Insolvency Act 1986), stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition (otherwise than for the purposes of reconstruction, amalgamation, reorganization, merger or consolidation or other similar arrangement) with or for the benefit of its creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer;
- (viii) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Guarantor, or the Issuer or any Guarantor shall apply or petition for a winding-up or administration order in respect of itself or ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation or other similar arrangement; or
- (ix) *Analogous Events*: any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs (vii) and (viii).

The BATIF Indenture provides that if an Event of Default occurs and is continuing with respect to the Notes of any series then outstanding, then and in each and every such case (other than certain Events of Default specified in paragraphs (vii), (viii) and (ix) above with respect to the Issuer or any Guarantor), unless the principal of all the Notes of such series shall have already become due and payable, the holders of not less than 25% in aggregate principal amount of the Notes of such affected series then outstanding, by notice in writing to the Issuer, each Guarantor and the Trustee, may declare the entire principal amount of all Notes of such series and interest accrued and unpaid thereon, if any, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, without any further declaration or other act on the part of any holder. If certain Events of Default described in paragraph (vii), (viii) or (ix) above occur with respect to the Issuer or any Guarantor and are continuing with respect to a series of Notes, the principal amount of and accrued and unpaid interest on all the Notes of such series issued pursuant to the BATIF Indenture shall become immediately due and payable, without any declaration or other act on the part of the Trustee or any holder. Under certain circumstances, the holders of a majority in aggregate principal amount of the then outstanding Notes of such series, by written notice to the Issuer, each Guarantor and the Trustee, may waive defaults and rescind and annul declarations of acceleration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or shall impart any right consequent thereon.

The holders of a majority in aggregate principal amount of any series of Notes then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to the Notes of such series, subject to certain limitations to be specified in the BATIF Indenture, including providing to the Trustee indemnity satisfactory to it.

An Event of Default with respect to any series of Notes would not necessarily constitute an event of default with respect to the other series of Notes.

The BATIF Indenture provides that notwithstanding the foregoing provisions described under “—*Events of Default*”, if the principal of, premium (if any) or interest on or Additional Amounts with respect to any Note is payable in a currency or currencies other than Dollars and such currency or currencies are not available to the Issuer or any Guarantor for making payment thereof due to the imposition of exchange controls or other circumstances beyond the control of the Issuer or such Guarantor (a “Conversion Event”), the Issuer and the Guarantor will be entitled to satisfy its obligations to Holders of the Notes by making such payment in Dollars in an amount equal to the Dollar equivalent of the amount payable in such other currency, as determined by the Issuer or the Guarantor making such payment, as the case may be, based on the Exchange Rate on the date of such payment, or, if such rate is not then available, on the basis of the most recently available Exchange Rate. Notwithstanding the foregoing provisions, any payment made under such circumstances in Dollars where the required payment is in a currency other than Dollars will not constitute an Event of Default under the BATIF Indenture.

Promptly after the occurrence of a Conversion Event, the Issuer or the relevant Guarantor shall give written notice thereof to the Trustee and to the Paying Agent; and the Trustee, promptly after receipt of such notice, shall give notice thereof in the manner provided in the BATIF Indenture to the Holders of the relevant series of Notes. Promptly after the making of any payment in Dollars as a result of a Conversion Event, the Issuer or the Guarantor making such payment, as the case may be, shall give notice in the manner provided in the BATIF Indenture to the Holders, setting forth the applicable Exchange Rate and describing the calculation of such payments.

No holder of the Notes of a series will have any right to institute any action or proceeding at law or in equity or in bankruptcy or otherwise upon or under or with respect to the BATIF Indenture, or for the appointment of a trustee, receiver, liquidator, custodian or other similar official or for any other remedy under the BATIF Indenture (except suits for the enforcement of payment of overdue principal or interest) unless (1) the holder of a Note gives to the Trustee written notice of a continuing Event of Default, (2) the holders of at least 25% in principal amount of the outstanding Notes of such series have made a written request to the Trustee to institute such proceeding as Trustee, (3) the holder or holders of Notes offer, and if requested, provide to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense, (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity and (5) during such 60-day period the holders of a majority in aggregate principal amount of the outstanding Notes of such series have not given the Trustee a direction inconsistent with the request. The holder of a Note may not use the BATIF Indenture to prejudice the rights of another holder of a Note or to obtain a preference or priority over another holder of a Note (it being understood that the Trustee does not have an affirmative duty to ascertain whether or not such actions or forbearances are unduly prejudicial to such holders).

Satisfaction and Discharge

The BATIF Indenture provides that BAT may, subject to satisfying certain conditions, discharge certain obligations to the holders of Notes of any series of Notes that have not already been delivered to the Trustee for cancellation and that either have become due and payable or will become due and payable within one year (or scheduled for redemption within one year) by depositing with the Trustee or Paying Agent, in trust, funds in an amount sufficient to pay the entire indebtedness on such series of Notes in respect of principal and premium, if any, and interest, if any, to the date of such deposit (if such Notes have become due and payable) or to the maturity thereof or redemption date, as the case may be, along with an officer's certificate and an opinion of counsel stating that all conditions precedent relating to the satisfaction and discharge of the BATIF Indenture have been complied with.

Legal Defeasance and Covenant Defeasance

The BATIF Indenture provides that the Issuer will have the option either (a) to be deemed (together with each Guarantor) to have paid and discharged the entire indebtedness represented by, and obligations under, a series of Notes and the applicable Guarantees and to have satisfied all the obligations under the BATIF Indenture relating to the series of Notes (except for certain obligations, including those relating to the defeasance trust and obligations to register the transfer or exchange of Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain paying agencies) on the 91st day after the applicable conditions described below have been satisfied or (b) to cease (together with each Guarantor) to be under any obligation to comply with the covenants described above under “—*Covenants of the Issuer and the Guarantors—Negative Pledge*”, “—*Covenants of the Issuer and the Guarantors—Limitation on Mergers, Consolidations, Amalgamations and Combinations*”, and non-compliance with such covenants and the occurrence of all events described above under “—*Events of Default*” will not give rise to any Event of Default under the BATIF Indenture, at any time after the applicable conditions described below have been satisfied.

In order to exercise either defeasance option, the Issuer must (i) deposit with the Trustee, irrevocably in money or Government Obligations (as defined in the BATIF Indenture), funds sufficient in the opinion of a certified public accounting firm of national reputation for the payment of principal of and interest on the applicable outstanding Notes of any series to and including the Redemption Date irrevocably designated by the Issuer on or prior to the date of deposit of such money or Government Obligations, and must (ii) comply with certain other conditions, including delivering to the Trustee an opinion of U.S. counsel to the effect that beneficial owners of the applicable Notes will not recognize income, gain or loss for United States Federal income tax purposes as a result of the exercise of such option and will be subject to United States Federal income tax on the same amount and in the same manner and at the same time as would have been the case if such option had not been exercised and, in the case of clause (a) in the previous paragraph, which opinion must state that such opinion is based on a ruling received from or published by the United States Internal Revenue Service or on a change in the applicable U.S. Federal income tax laws after the date of issuance of the relevant Notes.

Modification and Waiver

Without Consent of Noteholders

The BATIF Indenture contains provisions permitting the Issuer, the Guarantors and the Trustee, without the consent of the holders of any of the applicable Notes at any time outstanding, from time to time and at any time, to enter into a supplemental indenture amending or supplementing such BATIF Indenture, the Notes or the Guarantees in order to:

- convey, transfer, assign, mortgage or pledge to the holders of the applicable Notes or any person acting on their behalf as security for the applicable Notes any property or assets;
- evidence the succession of another person to the Issuer or any Guarantor, as the case may be, or successive successions, and the assumption by the successor person(s) of the covenants, agreements and obligations of the Issuer or any Guarantor, as the case may be, pursuant to the BATIF Indenture;
- evidence and provide for the acceptance of appointment of a successor or successors to the Trustee and/or the Paying Agent, Transfer Agent, Calculation Agent and Registrar, as applicable;
- add to the covenants of, or the restrictions, conditions or provisions applicable to, the Issuer and any Guarantor, as the case may be, such further covenants, restrictions, conditions or provisions as the Issuer and any Guarantor, as the case may be, shall consider to be for the protection of the holders of the applicable Notes issued pursuant to the BATIF Indenture, including to eliminate one or both prongs of the release provision under “—*Guarantees—Release*”, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default under the BATIF Indenture permitting the enforcement of all or any of the several remedies provided in the BATIF Indenture; provided that, in respect of any such additional covenant, restriction, condition or provision, such supplemental indenture may provide for a particular period of grace after default (which may be shorter or longer than that allowed in the case of other defaults) or may limit the remedies available to the Trustee upon such an Event of Default;
- modify the restrictions on, and procedures for, resale and other transfers of the applicable Notes pursuant to law, regulation or practice relating to the resale or transfer of restricted securities generally;
- cure any ambiguity or to correct or supplement any provision contained in the BATIF Indenture, the Notes, or the Guarantees which may be defective or inconsistent with any other provision contained therein or to make such other provision in regard to matters or questions arising under the BATIF Indenture, the Notes or the Guarantees as the Issuer, any Guarantor or the Trustee may deem necessary or desirable and which will not, in the opinion of the Issuer, adversely affect the interests of the holders of the applicable Notes in any material respect;

- issue an unlimited aggregate principal amount of Notes under the BATIF Indenture or to “reopen” the applicable series of Notes and create and issue additional notes having substantially identical terms and conditions as the applicable Notes (or in all respects except as to issue price, denomination, rate of interest, Maturity Date and the date from which interest, if any, shall accrue, and except as may otherwise be provided in or pursuant to such officer’s certificate or supplemental indenture relating thereto) so that the additional notes are consolidated and form a single series with the outstanding applicable Notes; and
- evidence the addition of any new Guarantor of the Notes and the BATIF Indenture, or the release of any Guarantor from its obligations with respect to the Notes and the BATIF Indenture, pursuant to the terms of the BATIF Indenture.

With Consent of Noteholders

The BATIF Indenture contains provisions permitting the Issuer, each Guarantor and the Trustee, with the consent of the holders of not less than a majority in aggregate principal amount of all series of the Notes affected by such supplemental indenture (voting as one class) at the time outstanding under the BATIF Indenture (including consents obtained in connection with a tender offer or exchange offer for the applicable Notes), from time to time and at any time, to enter into a supplemental indenture for the purpose of amending, waiving or otherwise modifying the provisions of the BATIF Indenture, the Notes and the Guarantees, or adding any provisions to or changing in any manner or eliminating any of the provisions of the applicable Notes or of modifying in any manner the rights of the holders of the applicable Notes; provided, that no such supplemental indenture may, without the consent of the holder of each of the Notes so affected:

- change the stated maturity of the applicable Note of, or the date for payment of any principal of, or installment of interest on, any applicable Note, or reduce the amount of principal of an Original Issue Discount Note that would be due and payable upon a declaration of acceleration of the maturity thereof pursuant to the provisions of the BATIF Indenture; or
- reduce the principal amount of or the rate or amount of interest on any applicable Note or Additional Amounts payable with respect thereto or reduce the amount payable thereon in the event of redemption or default or change the method for determining the interest rate thereon; or
- change the currency of payment of principal of or interest on any applicable Note or Additional Amounts payable with respect thereto; or change the obligation of the Issuer or any Guarantor, as the case may be, to pay Additional Amounts (except as otherwise permitted by such applicable Note); or
- impair the right to institute suit for the enforcement of any such payment on or with respect to any applicable Note; or

- reduce the percentage of the aggregate principal amount of the applicable Notes outstanding the consent of whose holders is required for any such supplemental indenture; or
- reduce the aggregate principal amount of any applicable Note outstanding necessary to modify or amend the BATIF Indenture or any such Note or to waive any future compliance or past default or reduce the quorum requirements or the percentage of aggregate principal amount of any applicable Notes outstanding required for the adoption of any action at any meeting of holders of such Notes or to reduce the percentage of the aggregate principal amount of such Notes outstanding necessary to rescind or annul any declaration of the principal of, or all accrued and unpaid interest on, any Note to be due and payable,

provided that no consent of any holder of any applicable Note shall be necessary to permit the Trustee, the Issuer and each Guarantor to execute supplemental indentures as described under “—*Without Consent of Noteholders*” above.

Any modifications, amendments or waivers to the BATIF Indenture or to the conditions of the applicable Notes will be conclusive and binding on all holders of the applicable Notes, whether or not they have consented to such action or were present at the meeting at which such action was taken, and on all future holders of the applicable Notes, whether or not notation of such modifications, amendments or waivers is made upon such Notes. Any instrument given by or on behalf of any holder of such a Note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent registered holders of such Note.

Prescription

Under New York’s statute of limitations, any legal action upon the Notes in respect of interest or principal must be commenced within six years after the payment thereof is due.

Notice

Notices to holders of Notes will be given by first-class mail postage prepaid to the last addresses of such holders as they appear in the Notes register; provided, no such mailing will be required so long as any Global Notes representing the Notes are held in their entirety on behalf of the Depositary or a clearing system, or any of its participants, as there may be substituted for the mailing of notice to holders of Notes described above the delivery of the relevant. Such notices will be deemed to have been given on the date of such mailing; notices to the Depositary or a clearing system, and (if applicable) its participants, for communication by them to the entitled accountholders. Any such notice shall be deemed to have been given on the day on which the said notice was given to the Depositary or a clearing system, and (if applicable) its participants.

Listing

The BATIF Notes are listed on the New York Stock Exchange.

Consent to Service

Each of the Issuer and the non-U.S. Guarantors has initially designated BATCAP as its authorized agent for service of process in any legal suit, action or proceeding arising out of or relating to the performance of its obligations under the BATIF Indenture, the supplemental indenture and the BATIF Notes brought in any state or federal court in the Borough of Manhattan, the City of New York, and the Guarantors will irrevocably submit (but for these purposes only) to the non-exclusive jurisdiction of any such court in any such suit, action or proceeding.

Governing Law

The BATIF Indenture, the Notes and the Guarantees are, and any applicable supplemental indentures shall be, governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws thereof.

Regarding the Trustee and Agents

Citibank, N.A. is the trustee under the BATIF Indenture. Citibank, N.A. is appointed by the Issuer to act as registrar, transfer agent, calculation agent and initial paying agent for the BATIF Notes. The Issuer can change the registrar, transfer agent, calculation agent or paying agent without prior notice to the holders of the BATIF Notes. The address of Citibank, N.A., as paying agent, is Citibank, N.A., Agency & Trust, 388 Greenwich Street, New York, NY 10013. From time to time, Citibank, N.A. and its respective affiliates perform various other services for the BAT Group and its affiliates (including acting as a lender under one or more of the BAT Group's lending facilities from time to time).

The BATIF Indenture contains limitations on the rights of the trustee, if it becomes a creditor of the Issuer or any Guarantor, to obtain payment of claims in some cases, or to realize on property received in respect of any of these claims as security or otherwise. The Trustee is permitted to engage in other transactions. However, if the Trustee acquires any conflicting interest (as defined in the TIA), it must either eliminate its conflict within 90 days or resign.

The BATIF Indenture provides that except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in such BATIF Indenture. During the continuance of an Event of Default of which the Trustee has received written notice, the Trustee will exercise such of the rights and powers vested in it under the BATIF Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

C. Description of the Notes Issued Under the 2019 BATCAP Indenture

The following is a summary of the material provisions of the 2019 BATCAP Indenture (as described below), the applicable supplemental indentures and the Notes. Any capitalized term used herein but not defined shall have the meaning assigned to such term in the 2019 BATCAP Indenture, the applicable supplemental indenture or under "—Certain Definitions". The following summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the 2019 BATCAP Indenture, the applicable

supplemental indentures and those terms made a part of the 2019 BATCAP Indenture and/or applicable supplemental indentures by reference to the Trust Indenture Act of 1939, as amended (the “TIA”).

GENERAL

The 2.259% Notes due 2028 (the “2028 Notes”), the 2.726% Notes due 2031 (the “2031 Notes”), the 3.734% Notes due 2040 (the “2040 Notes”), the 3.984% Notes due 2050 (the “2050 3.984% Notes”), the 4.700% Notes due 2027 (the “2027 4.700% Notes”), the 4.906% Notes due 2030 (the “2030 Notes”), the 5.282% Notes due 2050 (the “2050 5.282% Notes”), the 2.789% Notes due 2024 (the “2024 Notes”), the 3.215% Notes due 2026 (the “2026 Notes”), the 3.462% Notes due 2029 (the “2029 Notes”) and the 4.758% Notes due 2049 (the “2049 Notes” and, together with the 2028 Notes, the 2031 Notes, the 2040 Notes, the 2050 3.984% Notes, the 2027 4.700% Notes, the 2030 Notes, the 2050 5.282% Notes, 2024 Notes, the 2026 Notes and the 2029 Notes, the “BATCAP Notes”) were issued by B.A.T Capital Corporation (“BATCAP” or the “Issuer”).

In this “*Description of the Notes Issued Under the 2019 BATCAP Indenture*”, we refer to each series of the BATCAP Notes as a “series” of BATCAP Notes.

The 2028 Notes will mature on March 25, 2028. The 2031 Notes will mature on March 25, 2031. The 2040 Notes will mature on September 25, 2040. The 2050 3.984% Notes will mature on September 25, 2050. The 2027 4.700% Notes will mature on April 2, 2027. The 2030 Notes will mature on April 2, 2030. The 2050 5.282% Notes will mature on April 2, 2050. The 2024 Notes will mature on September 6, 2024. The 2026 Notes will mature on September 6, 2026. The 2029 Notes will mature on September 6, 2029. The 2049 Notes will mature on September 6, 2049.

The BATCAP Notes were issued in registered form and treated as eleven separate series of debt securities and were each issued under a separate supplemental indenture to the indenture dated as of September 6, 2019 (as amended or supplemented from time to time, the “2019 BATCAP Indenture”) by and among BATCAP, as Issuer, British American Tobacco p.l.c. (“BAT” or the “Parent”), B.A.T. International Finance p.l.c. (“BATIF”), B.A.T. Netherlands Finance B.V. (“BATNF”) and, unless its guarantee is released in accordance with the 2019 BATCAP Indenture, Reynolds American Inc. (“RAI”), each as a guarantor, Citibank, N.A., as trustee (the “Trustee”), registrar, transfer agent, calculation agent and initial paying agent (in such several capacities under the 2019 BATCAP Indenture, the “Registrar”, “Transfer Agent”, “Calculation Agent”, and “Paying Agent”, respectively).

Each guarantee in respect of the BATCAP Notes is referred to herein as a “Guarantee” and each entity that provides a Guarantee is referred to herein as a “Guarantor”. In this “*Description of the Notes Issued Under the 2019 BATCAP Indenture*”, the terms “holder”, “Noteholder” and other similar terms refer to a “registered holder” of Notes, and not to a beneficial owner of a book-entry interest in any BATCAP Notes.

PRINCIPAL, MATURITY AND INTEREST

The obligations of the Issuer under the BATCAP Notes and 2019 BATCAP Indenture are fully and unconditionally guaranteed on a joint and several and senior and unsecured basis by each of the Parent, BATIF, BATNF and, unless its guarantee is released in accordance with the 2019 BATCAP Indenture, RAI.

The BATCAP Notes were initially issued in the following aggregate principal amounts, with maturity dates as follows:

<u>Series of BATCAP Notes</u>	<u>Aggregate principal amount</u>	<u>Maturity date</u>
2028 Notes	\$1,750,000,000	March 25, 2028
2031 Notes	\$1,250,000,000	March 25, 2031
2040 Notes	\$750,000,000	September 25, 2040
2050 3.984% Notes	\$1,000,000,000	September 25, 2050
2027 4.700% Notes	\$900,000,000	April 2, 2027
2030 Notes	\$1,000,000,000	April 2, 2030
2050 5.282% Notes	\$500,000,000	April 2, 2050
2024 Notes	\$1,000,000,000	September 6, 2024
2026 Notes	\$1,000,000,000	September 6, 2026
2029 Notes	\$500,000,000	September 6, 2029
2049 Notes	\$1,000,000,000	September 6, 2049

Interest

The Notes bear interest per annum as follows:

<u>Series of BATCAP Notes</u>	<u>Interest rate per annum</u>
2028 Notes	2.259%
2031 Notes	2.726%
2040 Notes	3.734%
2050 3.984% Notes	3.984%
2027 4.700% Notes	4.700%
2030 Notes	4.906%
2050 5.282% Notes	5.282%
2024 Notes	2.789%
2026 Notes	3.215%
2029 Notes	3.462%
2049 Notes	4.758%

The 2028 Notes, the 2031 Notes, the 2040 Notes and the 2050 3.984% Notes will bear interest from the date of the initial issuance of such 2028 Notes, 2031 Notes, 2040 Notes and 2050 3.984% Notes or from the most recent interest payment date to which interest has been paid or provided for, payable semi-annually in arrears on March 25 and September 25 of each year, commencing on March 25, 2021 (each, an “Interest Payment Date”) until each series’ respective maturity date, unless previously purchased and cancelled or redeemed by the Issuer, to the person in whose name any 2028 Notes, 2031 Notes, 2040 Notes and 2050 3.984% Notes are registered at the close of business on the 15th calendar day preceding each Interest Payment Date, whether or not such day is a Business Day (each, a “Record Date”) notwithstanding any transfer or exchange of such 2028 Notes, 2031 Notes, 2040 Notes and 2050 3.984% Notes subsequent to the Record Date and prior to such Interest Payment Date, except that, if and to the

extent the Issuer shall default in the payment of the interest due on such Interest Payment Date, and the applicable grace period shall have expired, such defaulted interest may at the option of the Issuer be paid to the persons in whose names the outstanding 2028 Notes, 2031 Notes, 2040 Notes and 2050 3.984% Notes are registered at the close of business on a subsequent Record Date (which shall not be less than five Business Days prior to the date of payment of such defaulted interest) established by notice sent by or on behalf of the Issuer to the holders of 2028 Notes, 2031 Notes, 2040 Notes and 2050 3.984% Notes, not less than 15 days preceding such subsequent Record Date. The 2027 4.700% Notes, the 2030 Notes and the 2050 5.282% Notes bear interest from the most recent interest payment date to which interest has been paid or provided for, payable semi-annually in arrears on April 2 and October 2 of each year (each, also an "Interest Payment Date"), until each series' respective maturity date, unless previously purchased and cancelled or redeemed by the Issuer, to the person in whose name any 2027 4.700% Notes, 2030 Notes and 2050 5.282% Notes are registered at the close of business on the 15th calendar day preceding each Interest Payment Date, whether or not such day is a Business Day (each, also a "Record Date") notwithstanding any transfer or exchange of such 2027 4.700% Notes, 2030 Notes and 2050 5.282% Notes subsequent to the Record Date and prior to such Interest Payment Date, except that, if and to the extent the Issuer shall default in the payment of the interest due on such Interest Payment Date, and the applicable grace period shall have expired, such defaulted interest may at the option of the Issuer be paid to the persons in whose names the outstanding 2027 4.700% Notes, 2030 Notes and 2050 5.282% Notes are registered at the close of business on a subsequent Record Date (which shall not be less than five Business Days prior to the date of payment of such defaulted interest) established by notice sent by or on behalf of the Issuer to the holders of 2027 4.700% Notes, 2030 Notes and 2050 5.282% Notes, not less than 15 days preceding such subsequent Record Date. The 2024 Notes, the 2026 Notes, the 2029 Notes and the 2049 Notes bear interest from the most recent interest payment date to which interest has been paid or provided for, payable semi-annually in arrear on March 6 and September 6 of each year (each, also an "Interest Payment Date") until each series' respective maturity date, unless previously purchased and cancelled or redeemed by the Issuer, to the person in whose name any 2024 Notes, 2026 Notes, 2029 Notes and 2049 Notes are registered at the close of business on the 15th calendar day preceding each Interest Payment Date, whether or not such day is a Business Day (each, also a "Record Date") notwithstanding any transfer or exchange of such 2024 Notes, 2026 Notes, 2029 Notes and 2049 Notes subsequent to the Record Date and prior to such Interest Payment Date, except that, if and to the extent the Issuer shall default in the payment of the interest due on such Interest Payment Date, and the applicable grace period shall have expired, such defaulted interest may at the option of the Issuer be paid to the persons in whose names the outstanding 2024 Notes, 2026 Notes, 2029 Notes and 2049 Notes are registered at the close of business on a subsequent Record Date (which shall not be less than five Business Days prior to the date of payment of such defaulted interest) established by notice sent by or on behalf of the Issuer to the holders of 2024 Notes, 2026 Notes, 2029 Notes and 2049 Notes, not less than 15 days preceding such subsequent Record Date. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months, or in the case of an incomplete month, the number of days elapsed. If the date on which any interest payment or principal payment is to be made is not a Business Day, such payment will be made on the next day which is a Business Day, without any further interest or other amounts being paid or payable in connection therewith. A "Business Day" refers to any day which is not, in London or New York City, or any other place of payment, a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized or obligated by law or regulation to close.

Form and Denomination

The BATCAP Notes of each series were issued in fully registered form and only in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof, and were issued initially as global notes representing the BATCAP Notes of each series (collectively, the “Global Notes”). The Global Notes were (i) registered in the name of the Depository or the nominee of such Depository, in each case for the credit to an account of a member of, or direct or indirect participant in, the Depository; and (ii) delivered to Citibank, N.A. as custodian for such Depository.

Further Issues

The aggregate principal amount of notes (including each series of BATCAP Notes) issuable under the 2019 BATCAP Indenture (the “Notes”) is unlimited. The Issuer may, from time to time, without notice to or the consent of the holders of the Notes, issue Notes of a new series or “reopen” any series of the Notes (including any series of BATCAP Notes) and create and issue additional Notes having substantially identical terms and conditions as the then-outstanding Notes of a series (or in all respects except as to issue date, issue price, denomination, rate of interest, maturity date and the date from which interest, if any, shall accrue and except as may otherwise be provided in or pursuant to an officer’s certificate or any supplemental indenture relating thereto) so that the additional Notes are consolidated and form a single series of Notes with the outstanding Notes of such series, as the case may be, *provided* that if the additional Notes are not fungible with the outstanding Notes of the relevant series for United States Federal income tax purposes, the additional Notes will have separate CUSIPs, ISINs, or other identifying numbers.

Status of the Notes and Guarantees

The BATCAP Notes are unsecured and unsubordinated obligations of the Issuer and rank *pari passu* in right of payment among themselves and with all other direct, unsecured and unsubordinated obligations of the Issuer (except those obligations preferred by statute or operation of law). Each Guarantor fully and unconditionally guarantees, on a senior, unsecured basis, the due and punctual payment (and not collectability) of the principal of and interest on the BATCAP Notes (and the payment of additional amounts described under “—*Additional Amounts*” below) and other obligations under the 2019 BATCAP Indenture when and as the same shall become due and payable, whether at stated maturity, by declaration of acceleration, call for redemption or otherwise. Each Guarantee is an unsecured and unsubordinated obligation of the respective Guarantor and rank *pari passu* in right of payment with all other direct, unsecured and unsubordinated obligations of such Guarantor (except those obligations preferred by statute or operation of law). The Issuer and each Guarantor are subject to a negative pledge with respect to certain types of indebtedness, which are discussed in “—*Covenants of the Issuer and the Guarantors—Negative Pledge*”.

Guarantees

Release

The 2019 BATCAP Indenture and the applicable supplemental indentures provide, that, without the consent of the Trustee or the Noteholders, any Guarantor that is a subsidiary of the Parent (a “Subsidiary Guarantor”), other than BATIF and BATNF, will automatically and unconditionally be released from all obligations under its Guarantee, and such Guarantee shall thereupon terminate and be discharged and of no further force or effect, in the event that (1) its guarantee of all then outstanding notes issued under the EMTN Programme is released or (2) at substantially the same time its Guarantee of the Notes is terminated, the Subsidiary Guarantor is released from all obligations in respect of indebtedness for borrowed money for which such Subsidiary Guarantor is an obligor (as a guarantor or borrower). For purposes of this paragraph, the amount of a Subsidiary Guarantor’s indebtedness for borrowed money shall not include (A) the Notes issued pursuant to the 2019 BATCAP Indenture (including the BATCAP Notes), (B) any other debt the terms of which permit the termination of such Subsidiary Guarantor’s guarantee of such debt under similar circumstances, as long as such Subsidiary Guarantor’s obligations in respect of such other debt are terminated at substantially the same time as its Guarantee of the Notes (including the BATCAP Notes), (C) any debt that is being refinanced at substantially the same time that the Guarantee of the Notes (including the BATCAP Notes) is being released, provided that any obligations of the relevant Subsidiary Guarantor in respect of the debt that is incurred in the refinancing shall be included in the calculation of the relevant Subsidiary Guarantor’s indebtedness for borrowed money and (D) for the avoidance of doubt, any debt in respect of which such Subsidiary Guarantor is an obligor (as a guarantor or borrower) (i) between or among the Parent and any subsidiary or subsidiaries thereof or (ii) between or among any subsidiaries of the Parent.

As of the date of this summary, RAI is the only Subsidiary Guarantor to which the above provision is relevant. Under the EMTN Programme, RAI’s guarantee is released if at any time the aggregate amount of indebtedness for borrowed money for which the Subsidiary Guarantor is an obligor does not exceed 10% of the outstanding long-term debt of BAT as reflected in the balance sheet included in BAT’s most recent publicly released interim or annual consolidated financial statements, as evidenced by a certificate to such effect addressed to the trustee under the EMTN Programme and signed by a director of BAT.

Additional Amounts

Each of the Parent, BATIF and BATNF will make payments pursuant to the applicable Guarantee without withholding or deduction for or on account of any present or future tax, levy, impost or other similar governmental charge (“Taxes”) imposed, assessed, levied or collected by or for the account of the United Kingdom (in the case of a payment by the Parent or BATIF) or The Netherlands (in the case of a payment by BATNF), including in each case any political subdivision thereof or any authority thereof having the power to tax (a “Relevant Taxing Jurisdiction”), unless such withholding or deduction is required by law.

If any such Guarantor is required by a Relevant Taxing Jurisdiction to so withhold or deduct such Taxes, such Guarantor will pay to the holder such additional amounts ("Additional Amounts") as will result in the receipt by the holder of such amounts as would have been received by it if no such withholding or deduction of Taxes had been required; *provided, however*, that no Guarantor shall be required to pay any Additional Amounts for or on account of:

- (a) any Taxes that would not have been so imposed, assessed, levied or collected but for the Holder or beneficial owner of the applicable Note or Guarantee (or a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of a power over, such Holder, if such Holder is an estate, trust, partnership or corporation) being or having been a domiciliary, national or resident of, or engaging or having been engaged in a trade or business or maintaining or having maintained a permanent establishment or being or having been physically present in, a Relevant Taxing Jurisdiction or otherwise having or having had some connection with a Relevant Taxing Jurisdiction other than the holding or ownership of, or the collection of principal of, and premium (if any) or interest on, a Note or the enforcement of the applicable Note or Guarantee, as the case may be;
- (b) any Taxes that would not have been so imposed, assessed, levied or collected but for the fact that, where presentation is required in order to receive payment, the applicable Note or Guarantee was presented more than 30 days after the date on which such payment became due and payable or was provided for, whichever is later, except to the extent that the Holder or beneficial owner thereof would have been entitled to Additional Amounts had the applicable Note or Guarantee been presented for payment on any day during such 30-day period;
- (c) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;
- (d) any Taxes that are payable otherwise than by withholding or deduction from payments on or in respect of the applicable Note or Guarantee;
- (e) any Taxes that would not have been so imposed, assessed, levied or collected but for the failure by the Holder or the beneficial owner of the applicable Guarantee to (i) provide any certification, identification, information, documents or other evidence concerning the nationality, residence or identity of the Holder or the beneficial owner or its connection with a Relevant Taxing Jurisdiction; or (ii) make any valid or timely declaration or claim or satisfy any other reporting, information or procedural requirements relating to such matters if, in either case, compliance is required by statute, regulation, relevant income tax treaty or administrative practice of a Relevant Taxing Jurisdiction as a condition to relief or exemption from such Taxes;
- (f) any Taxes imposed or withheld pursuant to Sections 1471 through 1474 of the Code (or any amended or successor provisions), any U.S. Treasury regulations promulgated thereunder, any official interpretations thereof or any agreements entered into in connection with the implementation thereof ("FATCA Withholding"); or

(g) any combination of the Taxes described in clauses (a) through (f) above.

In addition, in the case of the 2024 Notes, the 2026 Notes, the 2029 Notes, and the 2049 Notes, no Guarantor shall be required to pay any Additional Amounts for or on account of any taxes imposed or to be withheld pursuant to the Dutch Withholding Tax Act 2021 (*Wet bronbelasting 2021*). In addition, Additional Amounts will not be paid with respect to any payment of the principal of, or premium (if any) or interest on, any Note or any payment pursuant to the applicable Guarantee to any Holder that is a fiduciary, a partnership, a limited liability company or any person other than the sole beneficial owner of such payment to the extent a beneficiary or settlor with respect to such fiduciary, a member of such partnership, an interest holder in such limited liability company or a beneficial owner that would not have been entitled to such amounts had such beneficiary, settlor, member, interest holder or beneficial owner been the Holder of the applicable Note or Guarantee.

Unless otherwise stated, references in any context to the payment of principal of, and premium (if any) or interest on, any Note, or to any payment pursuant to a Guarantee will be deemed to include payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption

The Notes are subject to optional redemption by the Issuer as described below under “—*Optional Redemption*”. The Notes are also subject to optional redemption by the Issuer in the event of certain changes in tax laws applicable to payments in respect of the Notes as described below under “—*Redemption for Tax Reasons*”.

Optional Redemption

The Issuer may redeem the BATCAP Notes, in whole or in part, at the Issuer’s option, at any time and from time to time before the applicable Par Call Date (as defined below), at a redemption price equal to the greater of (x) 100% of the principal amount of the series of BATCAP Notes to be redeemed and (y) as determined by the Independent Investment Banker (as defined below), the sum of the present values of the applicable Remaining Scheduled Payments (as defined below) discounted to the date of redemption (the “Redemption Date”) on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months or, in the case of an incomplete month, the number of days elapsed) at the Treasury Rate (as defined below) plus, in the case of each respective series of BATCAP Notes as follows:

2028 Notes	30 basis points
2031 Notes	35 basis points
2040 Notes	35 basis points
2050 3.984% Notes	40 basis points
2027 4.700% Notes	50 basis points
2030 Notes	50 basis points
2050 5.282% Notes	50 basis points
2024 Notes	25 basis points
2026 Notes	30 basis points
2029 Notes	30 basis points
2049 Notes	45 basis points

together with, in each case, accrued and unpaid interest on the principal amount of the BATCAP Notes to be redeemed to, but excluding, the Redemption Date.

If the Issuer elects to redeem a series of the BATCAP Notes on or after the applicable Par Call Date, the Issuer will pay an amount equal to 100% of the principal amount of the BATCAP Notes redeemed, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

In connection with such optional redemption the following defined terms apply:

- *Comparable Treasury Issue* means the United States Treasury security selected by the Independent Investment Banker that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the applicable BATCAP Notes to the relevant Par Call Date.
- *Comparable Treasury Price* means, with respect to any Redemption Date, (A) the average of the Reference Treasury Dealer Quotations for that Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations or (B) if the Independent Investment Banker for the applicable BATCAP Notes obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Quotations.
- *Independent Investment Banker* means one of the Reference Treasury Dealers (as defined below) appointed by the Issuer to act as the “Independent Investment Banker”.
- *Par Call Date* means (i) January 25, 2028, with respect to any 2028 Notes (two months prior to the maturity date of the 2028 Notes), (ii) December 25, 2030, with respect to any 2031 Notes (three months prior to the maturity date of the 2031 Notes), (iii) March 25, 2040, with respect to any 2040 Notes (six months prior to the maturity date of the 2040 Notes) and (iv) March 25, 2050, with respect to any 2050 3.984% Notes (six months prior to the maturity date of the 2050 3.984% Notes), (v) February 2, 2027 with respect to any 2027 4.700% Notes (two months prior to the maturity date of the 2027 4.700% Notes), (vi) January 2, 2030 with respect to any 2030 Notes (three months prior to the maturity date of the 2030 Notes) and (vii) October 2, 2049 with respect to any 2050 5.282% Notes (six months prior to the maturity date of the 2050 5.282% Notes) (viii) August 6, 2024 with respect to any 2024 Notes (one month prior to the maturity date of the 2024 Notes), (ix) July 6, 2026 with respect to any 2026 Notes (two months prior to the maturity date of the 2026 Notes), (x) June 6, 2029 with respect to any 2029 Notes (three months prior to the maturity date of the 2029 Notes) and (xi) March 6, 2049 with respect to any 2049 Notes (six months prior to the maturity date of the 2049 Notes).

- *Reference Treasury Dealer* means, in case of the 2028 Notes, the 2031 Notes, the 2040 Notes and the 2050 3.984% Notes, each of BofA Securities, Inc., Deutsche Bank Securities Inc., Goldman Sachs & Co. LLC, Wells Fargo Securities, LLC, NatWest Markets Securities Inc. and SG Americas Securities, LLC and their respective successors and two other nationally recognized investment banking firms that are Primary Treasury Dealers specified from time to time by the Issuer, in case of the 2027 4.700% Notes, the 2030 Notes and the 2050 5.282% Notes, each of Barclays Capital Inc., BofA Securities, Inc., Citigroup Global Markets Inc. and Mizuho Securities USA LLC and their respective successors and two other nationally recognized investment banking firms that are Primary Treasury Dealers specified from time to time by the Issuer, and in case of the 2024 Notes, the 2026 Notes, the 2029 Notes, and the 2049 Notes, each of BofA Securities, Inc., Barclays Capital Inc., Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and HSBC Securities (USA) Inc. and their respective successors and two other nationally recognized investment banking firms that are Primary Treasury Dealers specified from time to time by the Issuer; *provided, however*, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a “Primary Treasury Dealer”), the Issuer shall substitute therefor another nationally recognized investment banking firm that is a Primary Treasury Dealer.
- *Reference Treasury Dealer Quotation* means, with respect to each Reference Treasury Dealer and any Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day immediately preceding that Redemption Date.
- *Remaining Scheduled Payments* means, with respect to each BATCAP Note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due from and including the related Redemption Date, but for such redemption, to but excluding the relevant Par Call Date; *provided, however*, that if that Redemption Date is not an Interest Payment Date with respect to such BATCAP Notes, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that Redemption Date.
- *Treasury Rate* means, with respect to any Redemption Date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third Business Day immediately preceding that Redemption Date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that Redemption Date.

Notice of any optional redemption will be given in accordance with the 2019 BATCAP Indenture at least 10 days but not more than 30 days before the Redemption Date to each holder of the Notes to be redeemed. Any redemption may, at the Issuer's sole discretion, be subject to the satisfaction of one or more conditions precedent. In the event of a conditional redemption, the notice of conditional redemption shall reflect and specify the conditions to the redemption. Once the notice of redemption is delivered, BATCAP Notes called for redemption shall, subject to the satisfaction of any applicable conditions, become irrevocably due and payable on the Redemption Date.

If less than all the BATCAP Notes of a series are to be redeemed, in the case of a redemption at the Issuer's option as discussed in this section, the BATCAP Notes to be redeemed shall be selected in accordance with applicable procedures of DTC.

Upon presentation of any BATCAP Note redeemed in part only, the Issuer will execute and upon receipt of a written direction from the Issuer, the Paying Agent will authenticate and deliver (or cause to be transferred by book-entry) to, or on, the order of the holder thereof, at the expense of the Issuer, a new BATCAP Note of authorized denominations in principal amount equal to the unredeemed portion of the BATCAP Note so presented.

The redemption price shall be calculated by the Independent Investment Banker and the Issuer, and the Trustee and any agent shall be entitled to rely on such calculation.

Redemption for Tax Reasons

Each series of Notes (including each series of BATCAP Notes) is also redeemable by the Issuer, in whole but not in part, at 100% of the principal amount of such Notes plus any accrued and unpaid interest (including any Additional Amounts) to the applicable date fixed for such redemption pursuant to the terms of the 2019 BATCAP Indenture or such series of Notes (the "Redemption Date") at the Issuer's option at any time prior to their maturity if, due to a Change in Tax Law (as defined below): (i) the Issuer or any Guarantor, in accordance with the terms of the applicable Notes or applicable Guarantee, has, or would, become obligated to pay any Additional Amounts to the Holders of the Notes of that series; (ii) in the case of any Guarantor, (A) the Parent would be unable, for reasons outside its control, to procure payment by the Issuer or any other Guarantor or (B) the procuring of such payment by the Issuer and each such other Guarantor would be subject to withholding Taxes imposed by a Relevant Taxing Jurisdiction; and (iii) such obligation cannot otherwise be avoided by such Guarantor, the Parent or the Issuer, taking reasonable measures available to it. In such case, the Issuer may redeem the applicable Notes upon not less than 30 nor more than 60 days' notice as provided in "*—Notice*" below, at 100% of the principal amount of such Notes plus accrued and unpaid interest to the Redemption Date (including Additional Amounts); *provided* that (a) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or such Guarantor, as the case may be, would be obligated to pay any such Additional Amounts in respect of the applicable Notes or applicable Guarantee, as applicable, then due; and (b) at the time such notice is given, such obligation to pay such Additional Amounts remains in effect. The Issuer's right to redeem the applicable Notes shall continue as long as the Issuer or any Guarantor is obligated to pay such Additional Amounts, notwithstanding that the Issuer or such Guarantor, as the case may be, shall have made payments of Additional Amounts. Prior to the giving of any such notice of redemption, the Issuer must deliver to the Trustee: (i) an officer's certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the

conditions precedent to the right of the Issuer to so redeem have occurred; and (ii) an opinion of independent counsel or an independent accountant of recognized standing, selected by the Issuer or any Guarantor, as applicable, with respect to tax matters of the Relevant Taxing Jurisdiction to the effect that the Issuer or such Guarantor has, or would, become obligated to pay such Additional Amounts as a result of such Change in Tax Law.

For the purposes hereof, “Change in Tax Law” shall mean: (i) any changes in, or amendment to, any law of a Relevant Taxing Jurisdiction (including any regulations or rulings promulgated thereunder and including, for this purpose, any treaty entered into by the Relevant Taxing Jurisdiction) or any amendment to or change in the application or official interpretation (including judicial or administrative interpretation) of such law, which change or amendment becomes effective or, in the case of an official interpretation, is announced, on or after the first date of issuance of Notes of such series; or (ii) if the Issuer or any Guarantor consolidates, merges, amalgamates or combines with, or transfers or leases its assets substantially as an entirety to, any person that is incorporated or tax resident under the laws of any jurisdiction other than a Relevant Taxing Jurisdiction (a “successor”) and as a consequence thereof such person becomes the successor obligor to the Issuer or such Guarantor in respect of Additional Amounts that may become payable (in which case, for purposes of this redemption provision, all references to the Issuer or such Guarantor shall be deemed to be and include references to such person), any change in, or amendment to, any law of the jurisdiction of organization or tax residence of such successor, or the jurisdiction through which payments will be made by the successor, or any political subdivision or taxing authority thereof or thereon for purposes of taxation (including any regulations or rulings promulgated thereunder and including, for this purpose, any treaty entered into by such jurisdiction) or any amendment to or change in the application or official interpretation (including judicial or administrative interpretation) of such law, which change or amendment becomes effective or, in the case of an official interpretation, is announced, on or after the date of such consolidation, merger, amalgamation, combination or other transaction.

General

On or before any Redemption Date (as defined above), the Issuer shall deposit with the Paying Agent money sufficient to pay the redemption price of and accrued and unpaid interest on the BATCAP Notes to be redeemed on such date.

On and after any Redemption Date, interest will cease to accrue on the BATCAP Notes or any portion thereof called for redemption.

Maturity

Unless previously purchased or redeemed by the Issuer, and cancelled, the principal amount of each respective series of BATCAP Notes shall mature on:

Series of BATCAP Notes	Maturity date
2028 Notes	March 25, 2028
2031 Notes	March 25, 2031
2040 Notes	September 25, 2040

Series of BATCAP Notes	Maturity date
2050 3.984% Notes	September 25, 2050
2027 4.700% Notes	April 2, 2027
2030 Notes	April 2, 2030
2050 5.282% Notes	April 2, 2050
2024 Notes	September 6, 2024
2026 Notes	September 6, 2026
2029 Notes	September 6, 2029
2049 Notes	September 6, 2049

in an amount equal, in each case, to their principal amount, with accrued and unpaid interest to, but excluding, such date.

Covenants of the Issuer and the Guarantors

Reacquisition

There is no restriction on the ability of the Issuer to purchase or repurchase BATCAP Notes, provided, that any BATCAP Notes so repurchased shall be cancelled and not reissued.

Sinking Fund

There is no provision for a sinking fund for any of the Notes.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the BATCAP Notes, the 2019 BATCAP Indenture and the applicable supplemental indentures. You should refer to the BATCAP Notes, the 2019 BATCAP Indenture and applicable supplemental indentures for the full definition of all defined terms as well as any other terms used herein for which no definition is provided.

“Dollar” or “\$” means United States dollars, or such other money of the United States that at the time of payment is legal tender for payment of public and private debts.

“EMTN Programme” means the Euro Medium Term Note Programme to which BATCAP, BATIF and BATNF are parties as the issuers under the programme and notes issued thereunder are guaranteed by the Parent, each of the issuers thereunder (except when it is the relevant issuer) and RAI, as amended from time to time.

“Original Issue Discount Note” means any Note that is issued with “original issue discount” within the meaning of Section 1273(a) of the Code and Treasury Regulations promulgated thereunder and any other Note designated by the Company as issued with original issue discount for United States federal income tax purposes.

“Person” means any individual, corporation, partnership, joint venture, association, limited liability company, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Quoted Borrowing” means any indebtedness which: (i) is represented by notes, debentures or other securities issued otherwise than to constitute or represent advances made by banks and/or other lending institutions; (ii) is denominated, or confers any right to payment of principal and/or interest, in or by reference to any currency other than the currency of the country in which the issuer of the indebtedness has its principal place of business or is denominated, or confers any right to payment of principal and/or interest, in or by reference to the currency of such country but is sold or subscribed by or on behalf of, or by agreement with, the issuer of such indebtedness as to over 20% outside such country; and (iii) at its date of issue is, or is intended by the issuer of such indebtedness to become, quoted, listed, traded or dealt in on any stock exchange or other organized and regulated securities market in any part of the world.

Covenants of the Issuer and the Guarantors

Negative Pledge

The 2019 BATCAP Indenture provides that so long as any of the Notes (including any of the BATCAP Notes) remains outstanding, neither the Issuer nor any Guarantor will secure or allow to be secured any Quoted Borrowing issued by the Issuer or any Guarantor or any payment under any guarantee by any of them of any such Quoted Borrowing by any mortgage, charge, pledge or lien (other than arising by operation of law) upon any of its undertaking or assets, whether present or future, unless at the same time the same mortgage, charge, pledge or lien is extended, or security which is not materially less beneficial to the holders of the Notes than the security given as aforesaid or which shall be approved by consent of the holders of not less than 75% in aggregate principal amount of the Notes at the time outstanding is extended or created (as the case may be), to secure equally and ratably the principal of, and interest on, and all other payments (if any) in respect of the Notes.

Limitation on Mergers, Consolidations, Amalgamations and Combinations

Under the 2019 BATCAP Indenture, so long as any of the Notes (including any of the BATCAP Notes) remains outstanding thereunder, neither the Issuer nor any Guarantor may consolidate with or merge into any other person or sell, convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to any person (other than any sale or conveyance by way of a lease in the ordinary course of business), unless: (i) in the case of the Issuer, any successor person assumes the Issuer’s obligations on the Notes (including the BATCAP Notes) and under the 2019 BATCAP Indenture and, in the case of any Guarantor, any successor person assumes such Guarantor’s obligations on the Guarantee and under the 2019 BATCAP Indenture; (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; (iii) such successor person is organized under the laws of the United States or any State thereof, the United Kingdom, The Netherlands or any other country that is a member of the Organization for Economic Cooperation and Development as of the date of such succession; (iv) such successor person agrees to pay any Additional Amounts with respect to any withholding or

deduction of Taxes or any payment on the Notes (including the BATCAP Notes) or Guarantees (as applicable) imposed by the jurisdiction (other than the United States, unless otherwise required by clause (i) of this paragraph) in which such successor person is incorporated or otherwise a resident for tax purposes subject to the exceptions described under “—*Additional Amounts*” (for the avoidance of doubt, solely to the extent such successor person is the Issuer, changes will be made to the 2019 BATCAP Indenture as are necessary to obligate the Issuer to pay such Additional Amount); and (v) if as a result of such consolidation or merger or such sale, conveyance, transfer or lease, properties or assets of the Issuer or any Guarantor would become subject to a mortgage, pledge, security interest, lien or similar encumbrance to secure payment of any indebtedness for borrowed money of the Issuer or any Guarantor which would not be permitted by the Notes of a series or under the 2019 BATCAP Indenture, the Issuer or any Guarantor or such successor person, as the case may be, shall take such steps as shall be necessary to effectively secure the Notes of such series equally and ratably with (or prior to) all indebtedness for borrowed money secured thereby.

The limitation on mergers, consolidations, amalgamations and combinations described in this section “—*Limitation on Mergers, Consolidations, Amalgamations and Combinations*” shall not apply to any consolidation, merger, amalgamation or combination in which the Issuer or any Guarantor is the surviving corporation except that, in such case, the provisions of (ii) and (v) above shall apply such that: (x) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and (y) if as a result of such consolidation or merger or such sale, conveyance, transfer or lease, properties or assets of the Issuer or any Guarantor would become subject to a mortgage, pledge, security interest, lien or similar encumbrance to secure payment of any indebtedness for borrowed money of the Issuer or any Guarantor which would not be permitted by the Notes or under the 2019 BATCAP Indenture, the Issuer or any Guarantor, as the case may be, shall take such steps as shall be necessary to effectively secure the Notes equally and ratably with (or prior to) all indebtedness for borrowed money secured thereby.

The 2019 BATCAP Indenture does not contain covenants or other provisions to afford protection to holders of the Notes in the event of a highly leveraged transaction or a change in control of the Issuer or any Guarantor except as provided above.

Upon certain mergers or consolidations involving the Issuer or any Guarantor, or upon certain sales or conveyances of all or substantially all of the assets of the Issuer or any Guarantor, the obligations of the Issuer or such Guarantor, under the applicable Notes or the applicable Guarantee, shall be assumed by the person formed by such merger or consolidation or which shall have acquired such assets and upon such assumptions such person shall succeed to and be substituted for the Issuer or such Guarantor, as the case may be, and then the Issuer or such Guarantor will (except in the case of a lease) be relieved of all obligations and covenants under the 2019 BATCAP Indenture, the Notes and the applicable Guarantee, as the case may be. The terms “Issuer” and “Guarantor”, as used in the Notes and the 2019 BATCAP Indenture, also refer to any such successors or assigns so substituted.

Although there is a limited body of case law interpreting the phrase “entirety or substantially as an entirety”, there is no precise established definition of the phrase under applicable law.

Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of “entirety or substantially as an entirety” of the Issuer’s assets and its subsidiaries taken as a whole.

Events of Default

Each of the following events shall be an “Event of Default” with respect to any series of the Notes (including any series of the BATCAP Notes):

- (i) *Non-Payment*: default is made in the payment of: (a) any installment of interest (excluding Additional Amounts) upon any applicable Note as and when the same shall become due and payable, and there is a continuance of such default for a period of 14 days or more; (b) applicable Additional Amounts as and when the same shall become due and payable, and there is a continuance of such default for a period of 14 days; or (c) all or any part of the principal or premium, if any, of any applicable Note as and when the same shall become due and payable either at maturity, upon any redemption, by declaration or otherwise, and there is a continuance of such default for a period of three days;
- (ii) *Breach of Other Obligations*: the Issuer or any Guarantor does not perform or comply with any one or more of its other obligations under the applicable Notes or the 2019 BATCAP Indenture (other than those described in paragraph (i) above) which is not remedied within 30 days (unless a longer period is specified in the 2019 BATCAP Indenture) after written notice of such default shall have been given to the Issuer by the Trustee or to the Issuer and the Trustee by the holders of at least 25% of the outstanding principal amount of the Notes;
- (iii) *Cross-Default*: (a) any other present or future indebtedness for borrowed money of the Issuer or any Guarantor, other than the Notes issued by the Issuer, becomes due and payable prior to its stated maturity by reason of any default or event of default in respect thereof by the Issuer or any Guarantor and remains unpaid; or (b) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period; or (c) the Issuer or any Guarantor fails to pay when due and called upon (after the expiry of any applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money and which remains unpaid; provided that (x) payment of the indebtedness for borrowed money is not being contested in good faith and in accordance with legal advice or (y) the aggregate amount of the indebtedness for borrowed money, guarantees and indemnities in respect of which one or more of the events mentioned above in clauses (a), (b) and (c) of this paragraph (iii) has or have occurred and is or are continuing, equals or exceeds £750 million or its equivalent in any other currency of the indebtedness for borrowed money or, if greater, 1.25% of the Total Equity of the Parent, as set out in the “Total Equity” line item in the most recent consolidated group balance sheet of the Parent and its subsidiaries in the Parent’s most recent annual report;

- (iv) *Cessation of Guarantees*: any Guarantee ceases to be in full force and effect (except as contemplated by the terms of the 2019 BATCAP Indenture, including as described above under “—*Guarantees—Release*”) or any Guarantor denies or disaffirms in writing its obligations under the 2019 BATCAP Indenture or Guarantee;
- (v) *Enforcement Proceedings*: a distress or execution or other legal process is levied or enforced against or an encumbrancer takes possession of or a receiver, administrative receiver or other similar officer is appointed of the whole or a part of the assets of the Issuer or any Guarantor which is substantial in relation to the BAT Group taken as a whole and is not discharged, stayed, removed or paid out within 45 days after such execution or appointment;
- (vi) *Security Enforced*: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Guarantor becomes enforceable against all or substantially all of the assets of the Issuer or any Guarantor, and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person) and is not discharged within 45 days;
- (vii) *Insolvency*: the Issuer or any Guarantor is insolvent or bankrupt or unable to pay its debts (in respect of companies incorporated in England and Wales, within the meaning of Section 123(1)(b) or (e) or Section 123(2) of the UK Insolvency Act 1986), stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition (otherwise than for the purposes of reconstruction, amalgamation, reorganization, merger or consolidation or other similar arrangement) with or for the benefit of its creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer;
- (viii) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Guarantor, or the Issuer or any Guarantor shall apply or petition for a winding-up or administration order in respect of itself or ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation or other similar arrangement; or
- (ix) *Analogous Events*: any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs (vii) and (viii).

The 2019 BATCAP Indenture provides that if an Event of Default occurs and is continuing with respect to the Notes of any series then outstanding, then and in each and every such case (other than certain Events of Default specified in paragraphs (vii), (viii) and (ix) above with respect to the Issuer or any Guarantor), unless the principal of all the Notes of such series shall have

already become due and payable, the holders of not less than 25% in aggregate principal amount of the Notes of such affected series then outstanding, by notice in writing to the Issuer, each Guarantor and the Trustee, may declare the entire principal amount of all Notes of such series and interest accrued and unpaid thereon, if any, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, without any further declaration or other act on the part of any holder. If certain Events of Default described in paragraph (vii), (viii) or (ix) above occur with respect to the Issuer or any Guarantor and are continuing with respect to a series of Notes, the principal amount of and accrued and unpaid interest on all the Notes of such series issued pursuant to the 2019 BATCAP Indenture shall become immediately due and payable, without any declaration or other act on the part of the Trustee or any holder. Under certain circumstances, the holders of a majority in aggregate principal amount of the then outstanding Notes of such series, by written notice to the Issuer, each Guarantor and the Trustee, may waive defaults and rescind and annul declarations of acceleration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or shall impart any right consequent thereon.

The holders of a majority in aggregate principal amount of any series of Notes then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to the Notes of such series, subject to certain limitations to be specified in the 2019 BATCAP Indenture, including providing to the Trustee indemnity satisfactory to it.

An Event of Default with respect to any series of Notes would not necessarily constitute an event of default with respect to the other series of Notes.

The 2019 BATCAP Indenture provides that notwithstanding the foregoing provisions described under “—*Events of Default*”, if the principal of, premium (if any) or interest on or Additional Amounts with respect to any Note is payable in a currency or currencies other than Dollars and such currency or currencies are not available to the Issuer or any Guarantor for making payment thereof due to the imposition of exchange controls or other circumstances beyond the control of the Issuer or such Guarantor (a “Conversion Event”), the Issuer and the Guarantor will be entitled to satisfy its obligations to Holders of the Notes by making such payment in Dollars in an amount equal to the Dollar equivalent of the amount payable in such other currency, as determined by the Issuer or the Guarantor making such payment, as the case may be, based on the Exchange Rate on the date of such payment, or, if such rate is not then available, on the basis of the most recently available Exchange Rate. Notwithstanding the foregoing provisions, any payment made under such circumstances in Dollars where the required payment is in a currency other than Dollars will not constitute an Event of Default under the 2019 BATCAP Indenture.

Promptly after the occurrence of a Conversion Event, the Issuer or the relevant Guarantor shall give written notice thereof to the Trustee and to the Paying Agent; and the Trustee, promptly after receipt of such notice, shall give notice thereof in the manner provided in the 2019 BATCAP Indenture to the Holders of the relevant series of Notes. Promptly after the making of any payment in Dollars as a result of a Conversion Event, the Issuer or the Guarantor making such payment, as the case may be, shall give notice in the manner provided in the 2019 BATCAP Indenture to the Holders, setting forth the applicable Exchange Rate and describing the calculation of such payments.

No holder of the Notes of a series will have any right to institute any action or proceeding at law or in equity or in bankruptcy or otherwise upon or under or with respect to the 2019 BATCAP Indenture, or for the appointment of a trustee, receiver, liquidator, custodian or other similar official or for any other remedy under the 2019 BATCAP Indenture (except suits for the enforcement of payment of overdue principal or interest) unless (1) the holder of a Note gives to the Trustee written notice of a continuing Event of Default, (2) the holders of at least 25% in principal amount of the outstanding Notes of such series have made a written request to the Trustee to institute such proceeding as Trustee, (3) the holder or holders of Notes offer, and if requested, provide to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense, (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity and (5) during such 60-day period the holders of a majority in aggregate principal amount of the outstanding Notes of such series have not given the Trustee a direction inconsistent with the request. The holder of a Note may not use the 2019 BATCAP Indenture to prejudice the rights of another holder of a Note or to obtain a preference or priority over another holder of a Note (it being understood that the Trustee does not have an affirmative duty to ascertain whether or not such actions or forbearances are unduly prejudicial to such holders).

Satisfaction and Discharge

The 2019 BATCAP Indenture provides that BAT may, subject to satisfying certain conditions, discharge certain obligations to the holders of Notes of any series of Notes that have not already been delivered to the Trustee for cancellation and that either have become due and payable or will become due and payable within one year (or scheduled for redemption within one year) by depositing with the Trustee or Paying Agent, in trust, funds in an amount sufficient to pay the entire indebtedness on such series of Notes in respect of principal and premium, if any, and interest, if any, to the date of such deposit (if such Notes have become due and payable) or to the maturity thereof or redemption date, as the case may be, along with an officer's certificate and an opinion of counsel stating that all conditions precedent relating to the satisfaction and discharge of the 2019 BATCAP Indenture have been complied with.

Legal Defeasance and Covenant Defeasance

The 2019 BATCAP Indenture provides that the Issuer will have the option either (a) to be deemed (together with each Guarantor) to have paid and discharged the entire indebtedness represented by, and obligations under, a series of Notes and the applicable Guarantees and to have satisfied all the obligations under the 2019 BATCAP Indenture relating to the series of Notes (except for certain obligations, including those relating to the defeasance trust and obligations to register the transfer or exchange of Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain paying agencies) on the 91st day after the applicable conditions described below have been satisfied or (b) to cease (together with each Guarantor) to be under any obligation to comply with the covenants described above under “—*Covenants of the Issuer and the Guarantors—Negative Pledge*”, “—*Covenants of the Issuer and the Guarantors—Limitation on Mergers, Consolidations, Amalgamations and Combinations*”, and non-compliance with such covenants and the occurrence of all events described above under “—*Events of Default*” will not give rise to any Event of Default under the 2019 BATCAP Indenture, at any time after the applicable conditions described below have been satisfied.

In order to exercise either defeasance option, the Issuer must (i) deposit with the Trustee, irrevocably in money or Government Obligations (as defined in the 2019 BATCAP Indenture), funds sufficient in the opinion of a certified public accounting firm of national reputation for the payment of principal of and interest on the applicable outstanding Notes of any series to and including the Redemption Date irrevocably designated by the Issuer on or prior to the date of deposit of such money or Government Obligations, and must (ii) comply with certain other conditions, including delivering to the Trustee an opinion of U.S. counsel to the effect that beneficial owners of the applicable Notes will not recognize income, gain or loss for United States Federal income tax purposes as a result of the exercise of such option and will be subject to United States Federal income tax on the same amount and in the same manner and at the same time as would have been the case if such option had not been exercised and, in the case of clause (a) in the previous paragraph, which opinion must state that such opinion is based on a ruling received from or published by the United States Internal Revenue Service or on a change in the applicable U.S. Federal income tax laws after the date of issuance of the relevant Notes.

Modification and Waiver

Without Consent of Noteholders

The 2019 BATCAP Indenture contains provisions permitting the Issuer, the Guarantors and the Trustee, without the consent of the holders of any of the applicable Notes at any time outstanding, from time to time and at any time, to enter into a supplemental indenture amending or supplementing such 2019 BATCAP Indenture, the Notes or the Guarantees in order to:

- convey, transfer, assign, mortgage or pledge to the holders of the applicable Notes or any person acting on their behalf as security for the applicable Notes any property or assets;
- evidence the succession of another person to the Issuer or any Guarantor, as the case may be, or successive successions, and the assumption by the successor person(s) of the covenants, agreements and obligations of the Issuer or any Guarantor, as the case may be, pursuant to the 2019 BATCAP Indenture;
- evidence and provide for the acceptance of appointment of a successor or successors to the Trustee and/or the Paying Agent, Transfer Agent, Calculation Agent and Registrar, as applicable;
- add to the covenants of, or the restrictions, conditions or provisions applicable to, the Issuer and any Guarantor, as the case may be, such further covenants, restrictions, conditions or provisions as the Issuer and any Guarantor, as the case may be, shall consider to be for the protection of the holders of the applicable Notes issued pursuant to the 2019 BATCAP Indenture, including to eliminate one or both prongs of the release provision under “—*Guarantees—Release*”, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default under the 2019 BATCAP Indenture permitting the enforcement of all or any of the several remedies provided in the 2019 BATCAP Indenture; provided that, in

respect of any such additional covenant, restriction, condition or provision, such supplemental indenture may provide for a particular period of grace after default (which may be shorter or longer than that allowed in the case of other defaults) or may limit the remedies available to the Trustee upon such an Event of Default;

- modify the restrictions on, and procedures for, resale and other transfers of the applicable Notes pursuant to law, regulation or practice relating to the resale or transfer of restricted securities generally;
- cure any ambiguity or to correct or supplement any provision contained in the 2019 BATCAP Indenture, the Notes, or the Guarantees which may be defective or inconsistent with any other provision contained therein or to make such other provision in regard to matters or questions arising under the 2019 BATCAP Indenture, the Notes or the Guarantees as the Issuer, any Guarantor or the Trustee may deem necessary or desirable and which will not, in the opinion of the Issuer, adversely affect the interests of the holders of the applicable Notes in any material respect;
- issue an unlimited aggregate principal amount of Notes under the 2019 BATCAP Indenture or to “reopen” the applicable series of Notes and create and issue additional notes having substantially identical terms and conditions as the applicable Notes (or in all respects except as to issue price, denomination, rate of interest, Maturity Date and the date from which interest, if any, shall accrue, and except as may otherwise be provided in or pursuant to such officer’s certificate or supplemental indenture relating thereto) so that the additional notes are consolidated and form a single series with the outstanding applicable Notes; and
- evidence the addition of any new Guarantor of the Notes and the 2019 BATCAP Indenture, or the release of any Guarantor from its obligations with respect to the Notes and the 2019 BATCAP Indenture, pursuant to the terms of the 2019 BATCAP Indenture.

With Consent of Noteholders

The 2019 BATCAP Indenture contains provisions permitting the Issuer, each Guarantor and the Trustee, with the consent of the holders of not less than a majority in aggregate principal amount of all series of the Notes affected by such supplemental indenture (voting as one class) at the time outstanding under the 2019 BATCAP Indenture (including consents obtained in connection with a tender offer or exchange offer for the applicable Notes), from time to time and at any time, to enter into a supplemental indenture for the purpose of amending, waiving or otherwise modifying the provisions of the 2019 BATCAP Indenture, the Notes and the Guarantees, or adding any provisions to or changing in any manner or eliminating any of the provisions of the applicable Notes or of modifying in any manner the rights of the holders of the applicable Notes; provided, that no such supplemental indenture may, without the consent of the holder of each of the Notes so affected:

- change the stated maturity of the applicable Note of, or the date for payment of any principal of, or installment of interest on, any applicable Note, or reduce the amount of principal of an Original Issue Discount Note that would be due and payable upon a declaration of acceleration of the maturity thereof pursuant to the provisions of the 2019 BATCAP Indenture; or
- reduce the principal amount of or the rate or amount of interest on any applicable Note or Additional Amounts payable with respect thereto or reduce the amount payable thereon in the event of redemption or default or change the method for determining the interest rate thereon; or
- change the currency of payment of principal of or interest on any applicable Note or Additional Amounts payable with respect thereto; or change the obligation of the Issuer or any Guarantor, as the case may be, to pay Additional Amounts (except as otherwise permitted by such applicable Note); or
- impair the right to institute suit for the enforcement of any such payment on or with respect to any applicable Note; or
- reduce the percentage of the aggregate principal amount of the applicable Notes outstanding the consent of whose holders is required for any such supplemental indenture; or
- reduce the aggregate principal amount of any applicable Note outstanding necessary to modify or amend the 2019 BATCAP Indenture or any such Note or to waive any future compliance or past default or reduce the quorum requirements or the percentage of aggregate principal amount of any applicable Notes outstanding required for the adoption of any action at any meeting of holders of such Notes or to reduce the percentage of the aggregate principal amount of such Notes outstanding necessary to rescind or annul any declaration of the principal of, or all accrued and unpaid interest on, any Note to be due and payable,

provided that no consent of any holder of any applicable Note shall be necessary to permit the Trustee, the Issuer and each Guarantor to execute supplemental indentures as described under “—*Without Consent of Noteholders*” above.

Any modifications, amendments or waivers to the 2019 BATCAP Indenture or to the conditions of the applicable Notes will be conclusive and binding on all holders of the applicable Notes, whether or not they have consented to such action or were present at the meeting at which such action was taken, and on all future holders of the applicable Notes, whether or not notation of such modifications, amendments or waivers is made upon such Notes. Any instrument given by or on behalf of any holder of such a Note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent registered holders of such Note.

Prescription

Under New York's statute of limitations, any legal action upon the Notes in respect of interest or principal must be commenced within six years after the payment thereof is due.

Notice

Notices to holders of Notes will be given by first-class mail postage prepaid to the last addresses of such holders as they appear in the Notes register; provided, no such mailing will be required so long as any Global Notes representing the Notes are held in their entirety on behalf of the Depositary or a clearing system, or any of its participants, as there may be substituted for the mailing of notice to holders of Notes described above the delivery of the relevant. Such notices will be deemed to have been given on the date of such mailing; notices to the Depositary or a clearing system, and (if applicable) its participants, for communication by them to the entitled accountholders. Any such notice shall be deemed to have been given on the day on which the said notice was given to the Depositary or a clearing system, and (if applicable) its participants.

Listing

The BATCAP Notes are listed on the New York Stock Exchange.

Consent to Service

Each of the non-U.S. Guarantors has initially designated BATCAP as its authorized agent for service of process in any legal suit, action or proceeding arising out of or relating to the performance of its obligations under the 2019 BATCAP Indenture, the supplemental indentures and the Notes brought in any state or federal court in the Borough of Manhattan, the City of New York, and the Guarantors will irrevocably submit (but for these purposes only) to the non-exclusive jurisdiction of any such court in any such suit, action or proceeding.

Governing Law

The 2019 BATCAP Indenture, the Notes and the Guarantees are, and any applicable supplemental indentures shall be, governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws thereof.

Regarding the Trustee and Agents

Citibank, N.A. is the trustee under the 2019 BATCAP Indenture. Citibank, N.A. is appointed by the Issuer to act as registrar, transfer agent, calculation agent and initial paying agent for the Notes. The address of Citibank, N.A., as paying agent, is Citibank, N.A., Agency & Trust, 388 Greenwich Street, New York, NY 10013. From time to time, Citibank, N.A. and its respective affiliates perform various other services for the BAT Group and its affiliates (including acting as a lender under one or more of the BAT Group's lending facilities from time to time).

The 2019 BATCAP Indenture contains limitations on the rights of the trustee, if it becomes a creditor of Issuer or any Guarantor, to obtain payment of claims in some cases, or to realize on property received in respect of any of these claims as security or otherwise. The Trustee is permitted to engage in other transactions. However, if the Trustee acquires any conflicting interest (as defined in the TIA), it must either eliminate its conflict within 90 days or resign.

The 2019 BATCAP Indenture provides that except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in such 2019 BATCAP Indenture. During the continuance of an Event of Default of which the Trustee has received written notice, the Trustee will exercise such of the rights and powers vested in it under the 2019 BATCAP Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

D. Description of the Notes Issued Under the 2017 BATCAP Indenture

The following is a summary of the material provisions of the 2017 BATCAP Indenture (as described below) and the Notes. Any capitalized term used herein but not defined shall have the meaning assigned to such term in the 2017 BATCAP Indenture or under "—Certain Definitions". The following summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the 2017 BATCAP Indenture and those terms made a part of the 2017 BATCAP Indenture by reference to the Trust Indenture Act of 1939, as amended (the "TIA").

GENERAL

The 2.764% Notes due 2022 (the "2.764% Notes"), the 3.222% Notes due 2024 (the "3.222% Notes"), the 3.557% Notes due 2027 (the "3.557% Notes"), the 4.390% Notes due 2037 (the "4.390% Notes"), the 4.540% Notes due 2047 (the "4.540% Notes" and, together with the 2.764% Notes, the 3.222% Notes, the 3.557% Notes and the 4.390% Notes, the "Fixed Rate Notes") and the floating rate notes due 2022 (the "Floating Rate Notes") were issued by B.A.T Capital Corporation ("BATCAP" or the "Issuer").

In this "Description of the Notes Issued Under the 2017 BATCAP Indenture", we refer to each series of the Fixed Rate Notes and Floating Rate Notes as a "series" of Notes.

The 2.764% Notes will mature on August 15, 2022. The 3.222% Notes will mature on August 15, 2024. The 3.557% Notes will mature on August 15, 2027. The 4.390% Notes will mature on August 15, 2037. The 4.540% Notes will mature on August 15, 2047. The Floating Rate Notes will mature on August 15, 2022.

The Notes were issued in registered form and treated as eight separate series of debt securities under an indenture dated as of August 15, 2017 (as supplemented by the supplemental indenture no. 1, dated as of September 28, 2018, and as further amended or supplemented from time to time, the "2017 BATCAP Indenture"). The 2017 BATCAP Indenture is by and among BATCAP, as Issuer, British American Tobacco p.l.c. ("BAT" or the "Parent Guarantor"), B.A.T. International Finance p.l.c. ("BATIF"), British American Tobacco Holdings (The Netherlands) B.V. ("BATHTN"), B.A.T. Netherlands Finance B.V. ("BATNF" and, together with BATHTN, the "Dutch Guarantors"), and, unless its guarantee is released in accordance with the 2017 BATCAP Indenture, Reynolds American Inc. ("RAI"), each as a guarantor,

Wilmington Trust, National Association, as trustee (the “Trustee”), and Citibank, N.A., London Branch as paying agent, registrar, transfer agent and calculation agent (in such capacity, “Paying Agent”, “Registrar”, “Transfer Agent” or “Calculation Agent”, respectively). Citibank, N.A., New York Branch replaced Citibank, N.A., London Branch as paying agent, registrar, transfer agent and calculation agent on October 16, 2018.

Each entity that provides a guarantee in respect of the Notes is referred to herein as a “Guarantor”. In this “*Description of the Notes Issued Under the 2017 BATCAP Indenture*”, the terms “holder”, “Noteholder” and other similar terms refer to a “registered holder” of Notes, and not to a beneficial owner of a book-entry interest in any Notes.

PRINCIPAL, MATURITY AND INTEREST

The obligations of the Issuer under the Notes and 2017 BATCAP Indenture are fully and unconditionally guaranteed on a senior and unsecured basis by each of the Parent Guarantor, the Dutch Guarantors, BATIF and RAI.

The Notes were initially issued in the following aggregate principal amounts, with maturity dates as follows:

<u>Series of Notes</u>	<u>Aggregate principal amount</u>	<u>Maturity date</u>
64% Notes	\$2,250,000,000	August 15, 2022
3.222% Notes	\$2,500,000,000	August 15, 2024
3.557% Notes	\$3,500,000,000	August 15, 2027
4.390% Notes	\$2,500,000,000	August 15, 2037
4.540% Notes	\$2,500,000,000	August 15, 2047
Floating Rate Notes	\$750,000,000	August 15, 2022

Interest

Fixed Rate Notes

The Fixed Rate Notes bear interest per annum and have maturity dates as follows:

<u>Series of Fixed Rate Notes</u>	<u>Interest rate per annum</u>	<u>Maturity date</u>
2.764% Notes	2.764%	August 15, 2022
3.222% Notes	3.222%	August 15, 2024
3.557% Notes	3.557%	August 15, 2027
4.390% Notes	4.390%	August 15, 2037
4.540% Notes	4.540%	August 15, 2047

The 2.764% Notes, the 3.222% Notes, the 3.557% Notes, the 4.390% Notes and the 4.540% Notes bear interest from the most recent interest payment date to which interest has been paid or provided, payable semi-annually in arrear on February 15 and August 15 of each year (each, an “Interest Payment Date”) until their respective maturity date, unless previously purchased or

redeemed by BATCAP, to the person in whose name any, 2.764% Note, 3.222% Note, 3.557% Note, 4.390% Note or 4.540% Note, as applicable, is registered at the close of business on the 15th calendar day preceding each Interest Payment Date, whether or not such day is a Business Day (each, a “Record Date”) notwithstanding any transfer or exchange of such Notes subsequent to the Record Date and prior to such Interest Payment Date, except that, if and to the extent BATCAP shall default in the payment of the interest due on such Interest Payment Date, and the applicable grace period shall have expired, such defaulted interest may at the option of BATCAP be paid to the persons in whose names the outstanding Notes are registered at the close of business on a subsequent Record Date (which shall not be less than five Business Days prior to the date of payment of such defaulted interest) established by notice sent by or on behalf of the Issuer to the holders (which term means registered holders) of the 2.764% Notes, 3.222% Notes, 3.557% Notes, 4.390% Notes or 4.540% Notes, as applicable, not less than 15 days preceding such subsequent Record Date. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months, or in the case of an incomplete month, the number of days elapsed. If the date on which any interest payment or principal payment is to be made is not a Business Day, such payment will be made on the next day which is a Business Day, without any further interest or other amounts being paid or payable in connection therewith. A “Business Day” refers to any day which is not, in London or New York City, or any other place of payment, a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized or obligated by law or regulation to close.

Floating Rate Notes

Interest on the Floating Rate Notes is payable quarterly in arrear on February 15, May 15, August 15 and November 15 of each year, commencing on February 15, 2019. Interest will be paid to the person in whose name such Note is registered at the close of business on the second Business Day that precedes the related interest payment date. The Floating Rate Notes bear interest at a rate per annum equal to LIBOR *plus* 0.88% which will be reset as described below.

If any interest payment date (other than a redemption date or other maturity date) for the Floating Rate Notes would fall on a day that is not a Business Day, the interest payment date will be postponed to the next succeeding business day, except that if that Business Day falls in the next succeeding calendar month, the interest payment date will be the immediately preceding Business Day, in each case with interest accruing to but excluding the date of payment. If a redemption date or other maturity date for the Floating Rate Notes would fall on a day that is not a Business Day, the payment of interest and principal will be made on the next succeeding Business Day, and no interest will accrue or be payable unless the Issuer fails to make payment on such next succeeding Business Day.

The rate of interest on the Floating Rate Notes will be reset quarterly on February 15, May 15, August 15 and November 15 of each year (collectively, the “Interest Reset Dates” and each, an “Interest Reset Date”). If any Interest Reset Date would fall on a day that is not a Business Day, the Interest Reset Date will be postponed to the next succeeding Business Day, except that if that Business Day falls in the next succeeding calendar month, the Interest Reset Date will be the immediately preceding Business Day.

The Calculation Agent for the Floating Rate Notes is the Paying Agent, or its successor appointed by the Issuer. The Calculation Agent will determine the interest rate for each Interest Reset Date by reference to LIBOR on the second London banking day preceding the applicable Interest Reset Date, which is referred to herein as an "Interest Determination Date".

Promptly upon such determination, the Calculation Agent will notify the Issuer and the Trustee of the new interest rate. Upon the request of the holder of any Floating Rate Note, the Calculation Agent will provide the interest rate then in effect and, if determined, the interest rate that will become effective on the next Interest Reset Date.

"London banking day" means any day on which dealings in U.S. dollars are transacted in the London interbank market. "LIBOR" will be determined by the Calculation Agent in accordance with the following provisions:

- With respect to any Interest Determination Date, LIBOR will be the rate (expressed as a percentage per annum) for deposits in U.S. dollars having a maturity of three months commencing on the related Interest Reset Date that appears on Reuters Page LIBOR01 as of 11:00 a.m. (London time) on that Interest Determination Date. If no such rate appears, then LIBOR, in respect of that Interest Determination Date will be determined in accordance with the following provisions.
- With respect to an Interest Determination Date on which no rate appears on Reuters Page LIBOR01, the Calculation Agent will request the principal London offices of each of four major reference banks in the London interbank market (which may include affiliates of the initial purchasers of the Unregistered Notes), as selected by the Issuer, to provide its offered quotation (expressed as a percentage per annum) for deposits in U.S. dollars for the period of three months, commencing on the related Interest Reset Date, to prime banks in the London interbank market at approximately 11:00 a.m. (London time) on that Interest Determination Date and in a principal amount that is representative for a single transaction in U.S. dollars in that market at that time. If at least two quotations are provided, then LIBOR on that Interest Determination Date will be the arithmetic mean of those quotations.
- If fewer than two quotations are provided, then LIBOR on the Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 a.m. (New York City time) on the Interest Determination Date by three major banks in New York City (which may include affiliates of the initial purchasers of the Unregistered Notes) selected by the Issuer for loans in U.S. dollars to leading European banks, for a period of three months, commencing on the related Interest Reset Date, and in a principal amount that is representative for a single transaction in U.S. dollars in that market at that time. If at least two such rates are so provided, LIBOR on the Interest Determination Date will be the arithmetic mean of such rates.

- If fewer than two such rates are so provided, LIBOR on the Interest Determination Date will be LIBOR in effect with respect to the immediately preceding Interest Determination Date. “Reuters Page LIBOR01” means the display that appears on Reuters (or any successor service) on page LIBOR01 (or any page as may replace such page on such service) for the purpose of displaying London interbank offered rates of major banks for U.S. dollars.

Interest on the Floating Rate Notes is calculated on the basis of a 360-day year and the actual number of days elapsed.

All percentages resulting from any calculation of any interest rate for the Floating Rate Notes will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (*e.g.*, 5.876545% (or .05876545) would be rounded to 5.87655% (or .0587655)), and all dollar amounts would be rounded to the nearest cent with one-half cent being rounded upward.

The interest rate on the Floating Rate Notes will in no event be higher than the maximum rate permitted by applicable law and in no event be less than 0.00%.

All calculations made by the Calculation Agent for the purposes of calculating interest on the Floating Rate Notes will be conclusive and binding on the holders and the Issuer, absent manifest error.

FORM AND DENOMINATION

The Notes were issued in fully registered form and only in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof. The Notes were issued as Global Notes.

FURTHER ISSUES

The aggregate principal amount of Notes issuable under the 2017 BATCAP Indenture is unlimited. The Issuer may, from time to time, without notice to or the consent of the holders of the Notes, “reopen” any series of the Notes and create and issue additional notes having identical terms and conditions as the 2.764% Notes, the 3.222% Notes, the 3.557% Notes, the 4.390% Notes, the 4.540% Notes, and the Floating Rate Notes, as the case may be (or in all respects except for the issue date, issue price, the payment of interest accruing prior to the issue date of such additional notes and/or the first payment of interest following the issue date of such additional notes) so that the additional notes are consolidated and form a single series of Notes with the Notes, as the case may be (a “Further Issue”), *provided* that if the additional notes are not fungible with the Notes for United States federal income tax purposes, the additional notes will have separate CUSIPs, ISINs, or other identifying numbers.

STATUS OF THE NOTES AND GUARANTEES

The Notes are unsecured and unsubordinated obligations of the Issuer and rank *pari passu* in right of payment among themselves and with all other direct, unsecured and unsubordinated obligations of the Issuer (except those obligations preferred by statute or operation of law). Each Guarantor fully and unconditionally guaranteed, on a senior, unsecured basis, the due and

punctual payment (and not collectability) of the principal of and interest on the Notes (and the payment of additional amounts described under “—*Payment of Additional Amounts*” below) and other obligations under the 2017 BATCAP Indenture when and as the same shall become due and payable, whether at stated maturity, by declaration of acceleration, call for redemption or otherwise. Each Guarantee is an unsecured and unsubordinated obligation of the respective Guarantor and ranks *pari passu* in right of payment with all other direct, unsecured and unsubordinated obligations of such Guarantor (except those obligations preferred by statute or operation of law). The Issuer and each Guarantor are subject to a negative pledge with respect to certain types of indebtedness, which are discussed in “—*Covenants of the Issuer and the Guarantors—Negative Pledge*” below.

GUARANTEES

Release

The 2017 BATCAP Indenture provides that, without the consent of the Trustee or the Noteholders, a Guarantor that is a subsidiary of the Parent Guarantor (a “Subsidiary Guarantor”), other than BATIF and the Dutch Guarantors, will automatically and unconditionally be released from all obligations under its Guarantee, and such Guarantee shall thereupon terminate and be discharged and of no further force or effect, in the event that (1) its guarantee of all then outstanding notes issued under the EMTN Programme is released or (2) at substantially the same time its Guarantee of the Notes is terminated, the Subsidiary Guarantor is released from all obligations in respect of indebtedness for borrowed money for which such Subsidiary Guarantor is an obligor (as a guarantor or borrower). For purposes of this paragraph, the amount of a Subsidiary Guarantor’s indebtedness for borrowed money shall not include (A) the Notes issued pursuant to the 2017 BATCAP Indenture, (B) any other debt the terms of which permit the termination of such Subsidiary Guarantor’s guarantee of such debt under similar circumstances, as long as such Subsidiary Guarantor’s obligations in respect of such other debt are terminated at substantially the same time as its guarantee of the Notes, (C) any debt that is being refinanced at substantially the same time that the guarantee of the Notes is being released, provided that any obligations of the relevant Subsidiary Guarantor in respect of the debt that is incurred in the refinancing shall be included in the calculation of the relevant Subsidiary Guarantor’s indebtedness for borrowed money and (D) for the avoidance of doubt, any debt in respect of which such Subsidiary Guarantor is an obligor (as a guarantor or borrower) (i) between or among the Parent Guarantor and any subsidiary or subsidiaries thereof or (ii) between or among any subsidiaries of the Parent Guarantor.

As of the date of this summary, RAI is the only Subsidiary Guarantor to which the above provision is relevant. Under the EMTN Programme, a Subsidiary Guarantor’s guarantee is released if at any time the aggregate amount of indebtedness for borrowed money for which the Subsidiary Guarantor is an obligor does not exceed 10% of the outstanding long term debt of BAT as reflected in the balance sheet included in BAT’s most recent publicly released interim or annual consolidated financial statements, as evidenced by a certificate to such effect addressed to the trustee under the EMTN Programme and signed by a director of BAT.

ADDITIONAL AMOUNTS

The Issuer or, if applicable, each Guarantor, will make payments of, or in respect of, principal, premium (if any) and interest on the Notes, or any payment pursuant to the applicable Guarantee, as the case may be, without withholding or deduction for or on account of any present or future tax, levy, impost or other similar governmental charge whatsoever imposed, assessed, levied or collected (“Taxes”) by or for the account of the United States, the United Kingdom (in the case of a payment by the Parent Guarantor or BATIF), The Netherlands (in the case of a payment by a Dutch Guarantor) or any other jurisdiction through which payment is made by or on behalf of the Issuer or, if applicable, such Guarantor (or any political subdivision thereof or any authority thereof having the power to tax) (a “Relevant Taxing Jurisdiction”), unless such withholding or deduction is required by law.

If the Issuer or, if applicable, any Guarantor, is required by a Relevant Taxing Jurisdiction to so withhold or deduct such Taxes, the Issuer or, if applicable, such Guarantor, will pay to the holder of a Note such additional amounts (“Additional Amounts”) as may be necessary so that the net amount received by such holder will not be less than the amount such holder would have received if such Taxes had not been withheld or deducted; *provided, however*, that amounts with respect to any United States Tax shall be payable only to holders that are not United States persons (within the meaning of the Code); and *provided further*, that neither the Issuer nor such Guarantor shall be required to pay any Additional Amounts for or on account of:

- (i) any Taxes that would not have been so imposed, assessed, levied or collected but for the fact that the holder or beneficial owner of the applicable Note or Guarantee (or a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of a power over, such holder, if such holder is an estate, trust, partnership or corporation) is or has been a domiciliary, national or resident of, or engaging or having been engaged in a trade or business or maintaining or having maintained a permanent establishment or being or having been physically present in, a Relevant Taxing Jurisdiction or otherwise having or having had some connection with a Relevant Taxing Jurisdiction other than the holding or ownership of, or the collection of principal of, and premium (if any) or interest on, a Note or the enforcement of the applicable Guarantee, as the case may be;
- (ii) any Taxes that would not have been so imposed, assessed, levied or collected but for the fact that, where presentation is required in order to receive payment, the applicable Note or Guarantee was presented more than 30 days after the date on which such payment became due and payable or was provided for, whichever is later, except to the extent that the holder or beneficial owner thereof would have been entitled to Additional Amounts had the applicable Note or Guarantee been presented for payment on any day during such 30- day period;
- (iii) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;
- (iv) any Taxes that are payable otherwise than by withholding or deduction from payments on or in respect of the applicable Note or Guarantee;

- (v) any Taxes that would not have been so imposed, assessed, levied or collected but for the failure by the holder or the beneficial owner of the applicable Note or Guarantee to (A) provide any certification, identification, information, documents or other evidence concerning the nationality, residence or identity of the holder or the beneficial owner or its connection with the Relevant Taxing Jurisdiction or (B) make any valid or timely declaration or claim or satisfy any other reporting, information or procedural requirements relating to such matters if, in either case, compliance is required by statute, regulation, relevant income tax treaty or administrative practice of the Relevant Taxing Jurisdiction as a condition to relief or exemption from such Taxes;
- (vi) any Taxes imposed by reason of the holder or the beneficial owner of the applicable Note or Guarantee being or having been considered a bank receiving payments on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business, as described in Section 881(c)(3)(A) of the Code (or any amended or successor provisions);
- (vii) any Taxes imposed on interest received by a 10-percent shareholder of the Issuer within the meaning of Section 871(h)(3)(B) or Section 881(c)(3)(B) of the Code (or any amended or successor provisions);
- (viii) any backup withholding imposed pursuant to Section 3406 of the Code (or any amended or successor provisions);
- (ix) any Taxes imposed pursuant to Section 871(h)(6) or Section 881(c)(6) of the Code (or any amended or successor provisions);
- (x) any Taxes imposed by reason of the holder or the beneficial owner of the applicable Note or Guarantee being or having been a personal holding company, passive foreign investment company or controlled foreign corporation for U.S. federal income tax purposes or a corporation that has accumulated earnings to avoid U.S. federal income tax;
- (xi) any Taxes imposed or withheld pursuant to Sections 1471 through 1474 of the Code (or any amended or successor provisions), any Treasury regulations promulgated thereunder, any official interpretations thereof or any agreements entered into in connection with the implementation thereof; or
- (xii) any combination of the Taxes described in (i) through (xi) above.

In addition, Additional Amounts will not be paid with respect to any payment of the principal of, or any premium or interest on, any of the applicable Notes or Guarantees to any holder that is a fiduciary, a partnership, a limited liability company or any person other than the sole beneficial owner of such payment to the extent a beneficiary or settlor with respect to such fiduciary, a member of such partnership, an interest holder in such limited liability company or a beneficial owner that would not have been entitled to such amounts had such beneficiary, settlor, member, interest holder or beneficial owner been the holder of the applicable Notes or Guarantees.

Unless otherwise stated, references in any context to the payment of principal of, and any premium or interest on, any Note, or any payment pursuant to the Guarantees, will be deemed to include payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

REDEMPTION

The Fixed Rate Notes and the Floating Rate Notes are subject to optional redemption by the Issuer as described below under “—*Optional Redemption*”.

Both the Fixed Rate Notes and the Floating Rate Notes will be subject to optional redemption by the Issuer in the event of certain changes in tax laws applicable to payments in respect of the Notes as described below under “—*Redemption for Tax Reasons*”.

Optional Redemption

The Issuer may redeem the Fixed Rate Notes, in whole or in part, at the Issuer’s option, at any time and from time to time before the applicable Par Call Date, for all series of Fixed Rate Notes at a redemption price equal to the greater of (x) 100% of the principal amount of the Fixed Rate Notes to be redeemed and (y) as determined by the Independent Investment Banker (as defined below), the sum of the present values of the applicable Remaining Scheduled Payments (as defined below) discounted to the date of redemption (the “Redemption Date”) on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months or, in the case of an incomplete month, the number of days elapsed) at the Treasury Rate (as defined below) plus, in the case of each respective series of Fixed Rate Notes as follows:

2.764% Notes	15 basis points
3.222% Notes	20 basis points
3.557% Notes	20 basis points
4.390% Notes	25 basis points
4.540% Notes	30 basis points

together with, in each case, accrued and unpaid interest on the principal amount of the Fixed Rate Notes to be redeemed to, but excluding, the Redemption Date.

If the Issuer elects to redeem the 2.764% Notes, 3.222% Notes, 3.557% Notes, 4.390% Notes, 4.540% Notes or the Floating Rate Notes on or after the applicable Par Call Date (as defined below), the Issuer will pay an amount equal to 100% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

In connection with such optional redemption the following defined terms apply:

- *Comparable Treasury Issue* means the United States Treasury security selected by the Independent Investment Banker that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to, the remaining term of the 2.764% Notes, 3.222% Notes, 3.557% Notes, 4.390% Notes or the 4.540% Notes, as the case may be, to the relevant Par Call Date.

- *Comparable Treasury Price* means, with respect to any Redemption Date, (A) the average of the Reference Treasury Dealer Quotations for that Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations or (B) if the Independent Investment Banker for the applicable Fixed Rate Notes obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Quotations.
- *Independent Investment Banker* means one of the Reference Treasury Dealers (as defined below) appointed by the Issuer to act as the “Independent Investment Banker”.
- *Par Call Date* means (i) July 15, 2022 with respect to any 2.764% Notes (one month prior to the maturity date of the 2.764% Notes), (ii) June 15, 2024 with respect to any 3.222% Notes (two months prior to the maturity date of the 3.222% Notes), (iii) May 15, 2027 with respect to any 3.557% Notes (three months prior to the maturity date of the 3.557% Notes), (iv) February 15, 2037 with respect to any 4.390% Notes (six months prior to the maturity date of the 4.390% Notes), (v) February 15, 2047 with respect to any 4.540% Notes (six months prior to the maturity date of the 4.540% Notes) and (vi) July 15, 2022 with respect to any Floating Rate Notes (one month prior to the maturity date of the Floating Rate Notes).
- *Reference Treasury Dealer* means each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc., Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and HSBC Securities (USA) Inc. and their respective successors and two other nationally recognized investment banking firms that are Primary Treasury Dealers specified from time to time by the Issuer; *provided, however*, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in New York City (a “Primary Treasury Dealer”), the Issuer shall substitute therefor another nationally recognized investment banking firm that is a Primary Treasury Dealer.
- *Reference Treasury Dealer Quotation* means, with respect to each Reference Treasury Dealer and any Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day immediately preceding that Redemption Date.
- *Remaining Scheduled Payments* means, with respect to each Fixed Rate Note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due from and including the related Redemption Date, but for such redemption, to but excluding the relevant Par Call Date;

provided, however, that if that Redemption Date is not an Interest Payment Date with respect to such Fixed Rate Notes, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that Redemption Date.

- *Treasury Rate* means, with respect to any Redemption Date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third Business Day immediately preceding that Redemption Date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that Redemption Date.

Notice of any optional redemption will be given in accordance with “—*Notice*” below at least 10 days but not more than 30 days before the Redemption Date to each holder of the Fixed Rate Notes to be redeemed.

If less than all the Fixed Rate Notes are to be redeemed, in the case of a redemption at the Issuer’s option as discussed in this section, the Fixed Rate Notes to be redeemed shall be selected in accordance with applicable procedures of DTC.

Redemption for Tax Reasons

Each series of Notes is also redeemable by the Issuer, in whole but not in part, at 100% of the principal amount of such Notes plus any accrued and unpaid interest to the applicable Redemption Date (including any Additional Amounts) at the Issuer’s option at any time prior to their maturity if, due to a Change in Tax Law (as defined below): (i) the Issuer or a Guarantor, in accordance with the terms of the applicable Notes or applicable Guarantee, has, or would, become obligated to pay any Additional Amounts to the holders or beneficial owners of the Notes of that series; (ii) in the case of a Guarantor, (A) the Parent Guarantor would be unable, for reasons outside its control, to procure payment by the Issuer or any other Guarantor or (B) the procuring of such payment by the Issuer and each such other Guarantor would be subject to withholding taxes imposed by a Relevant Taxing Jurisdiction; and (iii) such obligation cannot otherwise be avoided by such Guarantor, the Parent Guarantor or the Issuer, taking reasonable measures available to it. In such case, the Issuer may redeem the applicable Notes upon not less than 30 nor more than 60 days’ notice as provided in “—*Notice*” below, at 100% of the principal amount of such Notes plus accrued and unpaid interest to the Redemption Date (including Additional Amounts); *provided*, that, (a) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or such Guarantor, as the case may be, would be obligated to pay any such Additional Amounts in respect of the applicable Notes or applicable Guarantee, as applicable, then due and (b) at the time such notice is given, such obligation to pay such Additional Amounts remains in effect. The Issuer’s right to redeem the applicable Notes shall continue as long as the Issuer or a Guarantor is obligated to pay such Additional Amounts, notwithstanding that the Issuer or such Guarantor, as the case may be, shall have made payments of Additional Amounts. Prior to the giving of any such notice of redemption, the Issuer must deliver to the Trustee: (i) an officer’s certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and (ii) an opinion of

independent counsel or an independent accountant of recognized standing, selected by the Issuer or any Guarantor, as applicable, with respect to tax matters of the Relevant Taxing Jurisdiction to the effect that the Issuer or such Guarantor has, or would, become obligated to pay such Additional Amounts as a result of such Change in Tax Law.

For the purposes hereof, "Change in Tax Law" shall mean: (i) any changes in, or amendment to, any law of a Relevant Taxing Jurisdiction (including any regulations or rulings promulgated thereunder and including, for this purpose, any treaty entered into by the Relevant Taxing Jurisdiction) or any amendment to or change in the application or official interpretation (including judicial or administrative interpretation) of such law, which change or amendment becomes effective or, in the case of an official interpretation, is announced, on or after August 15, 2017; or (ii) if the Issuer or a Guarantor consolidates, merges, amalgamates or combines with, or transfers or leases its assets substantially as an entirety to, any person that is incorporated or tax resident under the laws of any jurisdiction other than a Relevant Taxing Jurisdiction (a "successor") and as a consequence thereof such person becomes the successor obligor to the Issuer or such Guarantor in respect of Additional Amounts that may become payable (in which case, for purposes of this redemption provision, all references to the Issuer or such Guarantor shall be deemed to be and include references to such person), any change in, or amendment to, any law of the jurisdiction of organization or tax residence of such successor, or the jurisdiction through which payments will be made by the successor, or any political subdivision or taxing authority thereof or thereon for purposes of taxation (including any regulations or rulings promulgated thereunder and including, for this purpose, any treaty entered into by such jurisdiction) or any amendment to or change in the application or official interpretation (including judicial or administrative interpretation) of such law, which change or amendment becomes effective or, in the case of an official interpretation, is announced, on or after the date of such consolidation, merger, amalgamation, combination or other transaction.

General

Upon presentation of any Fixed Rate Note redeemed in part only, the Issuer will execute and the Paying Agent will authenticate and deliver (or cause to be transferred by book-entry) to, or on, the order of the holder thereof, at the expense of the Issuer, a new Fixed Rate Note or Fixed Rate Notes, of authorized denominations, in principal amount equal to the unredeemed portion of the Note so presented.

On or before any Redemption Date (as defined above), the Issuer shall deposit with the Paying Agent money sufficient to pay the redemption price of and accrued and unpaid interest on the Notes to be redeemed on such date. The redemption price shall be calculated by the Independent Investment Banker and the Issuer, and the Trustee and any agent shall be entitled to rely on such calculation.

On and after any Redemption Date, interest will cease to accrue on the Notes or any portion thereof called for redemption.

MATURITY

Unless previously purchased or redeemed by the Issuer, and cancelled, the principal amount of each respective series of Notes shall mature on:

<u>Series of Notes</u>	<u>Maturity date</u>
2.764% Notes	August 15, 2022
3.222% Notes	August 15, 2024
3.557% Notes	August 15, 2027
4.390% Notes	August 15, 2037
4.540% Notes	August 15, 2047
Floating Rate Notes	August 15, 2022

in an amount equal, in each case, to their principal amount, with accrued and unpaid interest to such date.

REACQUISITION

There is no restriction on the ability of the Issuer to purchase or repurchase Notes, *provided*, that any Notes so repurchased shall be cancelled and not reissued.

SINKING FUND

There is no provision for a sinking fund for any of the Notes.

CERTAIN DEFINITIONS

Set forth below is a summary of certain of the defined terms used in the Notes and the 2017 BATCAP Indenture. You should refer to the Notes and the 2017 BATCAP Indenture for the full definition of all defined terms as well as any other terms used herein for which no definition is provided.

“EMTN Programme” means the Euro Medium Term Note Programme to which BATIF, BATCAP, BATHTN and BATNF are parties as the issuers under the programme and notes issued thereunder are guaranteed by the Parent Guarantor, each of the issuers thereunder (except when it is the relevant issuer) and RAI, as amended from time to time.

“Person” means any individual, corporation, partnership, joint venture, association, limited liability company, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Quoted Borrowing” means any indebtedness which: (a) is represented by notes, debentures or other securities issued otherwise than to constitute or represent advances made by banks and/or other lending institutions; (b) is denominated, or confers any right to payment of principal and/or interest, in or by reference to any currency other than the currency of the country in which the issuer of the indebtedness has its principal place of business or is denominated, or confers any right to payment of principal and/or interest, in or by reference to the currency of such country but is placed or offered for subscription or sale by or on behalf of, or by agreement with, the

issuer of such indebtedness as to over 20% outside such country; and (c) at its date of issue is, or is intended by the issuer of such indebtedness to become, quoted, listed, traded or dealt in on any stock exchange or other organized and regulated securities market in any part of the world.

COVENANTS OF THE ISSUER AND THE GUARANTORS

Negative Pledge

The 2017 BATCAP Indenture provides that so long as any of the applicable Notes remains outstanding, neither the Issuer nor any Guarantor will secure or allow to be secured any Quoted Borrowing or any payment under any guarantee by any of them of any Quoted Borrowing by any mortgage, charge, pledge or lien (other than arising by operation of law) upon any of its undertaking or assets, whether present or future, unless at the same time the same mortgage, charge, pledge or lien is extended, or security which is not materially less beneficial to the holders of the applicable Notes than the security given as aforesaid or which shall be approved by consent of the holders of not less than 75% in aggregate principal amount of the applicable Notes at the time outstanding is extended or created (as the case may be), to secure equally and ratably the principal of, and interest on, and all other payments (if any) in respect of the applicable Notes.

Limitation on Mergers, Consolidations, Amalgamations and Combinations

So long as any of the applicable Notes remain outstanding, neither the Issuer nor any Guarantor may consolidate with or merge into any other person or sell, convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to any person (other than any sale or conveyance by way of a lease in the ordinary course of business), unless: (i) in the case of the Issuer, any successor person assumes the Issuer's obligations on the applicable Notes and under the 2017 BATCAP Indenture and, in the case of any Guarantor, any successor person assumes such Guarantor's obligations on the applicable Guarantee and under the 2017 BATCAP Indenture; (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; (iii) such successor person is organized under the laws of the United States, the United Kingdom, The Netherlands or any other country that is a member of the Organization for Economic Cooperation and Development as of the date of such succession; (iv) such successor person agrees to pay any Additional Amounts imposed by the jurisdiction in which such successor person is incorporated or otherwise a resident for tax purposes or through which payments are made and resulting therefrom or otherwise; and (v) if as a result of such consolidation or merger or such sale, conveyance, transfer or lease, properties or assets of the Issuer or any Guarantor would become subject to a mortgage, pledge, security interest, lien or similar encumbrance to secure payment of any indebtedness for borrowed money of the Issuer or a Guarantor which would not be permitted by the applicable Notes or under the 2017 BATCAP Indenture, the Issuer or any Guarantor or such successor person, as the case may be, shall take such steps as shall be necessary to effectively secure the Notes equally and ratably with (or prior to) all indebtedness for borrowed money secured thereby.

The limitation on mergers, consolidations, amalgamations and combinations described in this section “—*Limitation on Mergers, Consolidations, Amalgamations and Combinations*” shall not apply to any consolidation, merger, amalgamation or combination in which the Issuer or applicable Guarantor is the surviving corporation except that, in such case, the provisions of (ii) and (v) above shall apply such that: (x) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and (y) if as a result of such consolidation or merger or such sale, conveyance, transfer or lease, properties or assets of the Issuer or any Guarantor would become subject to a mortgage, pledge, security interest, lien or similar encumbrance to secure payment of any indebtedness for borrowed money of the Issuer or a Guarantor which would not be permitted by the applicable Notes or under the 2017 BATCAP Indenture, the Issuer or any Guarantor, as the case may be, shall take such steps as shall be necessary to effectively secure the Notes equally and ratably with (or prior to) all indebtedness for borrowed money secured thereby.

The 2017 BATCAP Indenture does not contain covenants or other provisions to afford protection to holders of the Notes in the event of a highly leveraged transaction or a change in control of the Issuer or any Guarantor except as provided above.

Upon certain mergers or consolidations involving the Issuer or a Guarantor, or upon certain sales or conveyances of the properties of the Issuer or a Guarantor, the obligations of the Issuer or such Guarantor, under the applicable Notes or the applicable Guarantee, shall be assumed by the person formed by such merger or consolidation or which shall have acquired such property and upon such assumptions such person shall succeed to and be substituted for the Issuer or such Guarantor, as the case may be, and then the Issuer or such Guarantor will be relieved from all obligations under the Notes and the applicable Guarantee, as the case may be. The terms “Issuer” and “Guarantor”, as used in the Notes and the 2017 BATCAP Indenture, also refer to any such successors or assigns so substituted.

Although there is a limited body of case law interpreting the phrase “entirety or substantially as an entirety”, there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of “entirety or substantially as an entirety” of the Issuer’s assets and its subsidiaries taken as a whole.

EVENTS OF DEFAULT

The following will be Events of Default (each an “Event of Default”) with respect to the applicable Notes:

- (i) Non-Payment: default is made in the payment of: (a) any installment of interest (excluding Additional Amounts) upon any applicable Note as and when the same shall become due and payable, and continuance of such default for a period of 14 days or more; (b) applicable Additional Amounts as and when the same shall become due and payable, and continuance of such default for a period of 14 days; or (c) all or any part of the principal or premium, if any, of any applicable Note as and when the same shall become due and payable either at maturity, upon any redemption, by declaration or otherwise, and continuance of such default for three days;

- (ii) Breach of Other Obligations: the Issuer or any Guarantor does not perform or comply with any one or more of its other obligations under the applicable Notes or the 2017 BATCAP Indenture (other than those described in paragraph (i) above) which is not remedied within 30 days after written notice of such default shall have been given to the Issuer by the Trustee or to the Issuer and the Trustee by the holders of at least 25% of the outstanding principal amount of the Notes;
- (iii) Cross-Default: (a) any other present or future indebtedness for borrowed money of the Issuer or any Guarantor, other than the Notes issued by the Issuer, becomes due and payable prior to its stated maturity by reason of any default or event of default in respect thereof by the Issuer or any Guarantor and remains unpaid; or (b) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period; or (c) the Issuer or any Guarantor fails to pay when due and called upon (after the expiry of any applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money and which remains unpaid; provided that (x) payment of the indebtedness for borrowed money is not being contested in good faith and in accordance with legal advice or (y) the aggregate amount of the indebtedness for borrowed money, guarantees and indemnities in respect of which one or more of the events mentioned above in (a), (b) and (c) has or have occurred and is or are continuing, equals or exceeds £750 million or its equivalent in any other currency of the indebtedness for borrowed money or, if greater, 1.25% of the Total Equity of the Parent Guarantor, as set out in the "Total Equity" line item in the most recent consolidated group balance sheet of the Parent Guarantor and its subsidiaries in the Parent Guarantor's most recent Annual Report;
- (iv) Cessation of Guarantees: any Guarantee ceases to be in full force and effect (except as contemplated by the terms of the 2017 BATCAP Indenture) or any Guarantor denies or disaffirms in writing its obligations under the 2017 BATCAP Indenture or Guarantee;
- (v) Enforcement Proceedings: a distress or execution or other legal process is levied or enforced against or an encumbrancer takes possession of or a receiver, administrative receiver or other similar officer is appointed of the whole or a part of the assets of the Issuer or any Guarantor which is substantial in relation to the BAT Group taken as a whole and is not discharged, stayed, removed or paid out within 45 days after such execution or appointment;
- (vi) Security Enforced: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Guarantor becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, manager or other similar person) against all or substantially all of the assets of the Issuer or any Guarantor and is not discharged within 45 days;

- (vii) Insolvency: the Issuer or any Guarantor is insolvent or bankrupt or unable to pay its debts (in respect of companies incorporated in England and Wales, within the meaning of Sections 123(1)(b) or (e) or Section 123(2) of the UK Insolvency Act 1986), stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition (otherwise than for the purposes of reconstruction, amalgamation, reorganization, merger or consolidation or other similar arrangement) with or for the benefit of its creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or a material part of the debts of the Issuer;
- (viii) Winding-up: an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or any Guarantor, or the Issuer or any Guarantor shall apply or petition for a winding-up or administration order in respect of itself or ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganization, merger or consolidation or other similar arrangement; or
- (ix) Analogous Events: any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs (vii) and (viii).

The 2017 BATCAP Indenture provides that if an Event of Default occurs and is continuing with respect to the Notes of a series, then and in each and every such case (other than certain Events of Default specified in paragraphs (vii), (viii) and (ix) above with respect to the Issuer or any Guarantor), unless the principal of all the applicable Notes shall have already become due and payable, the holders of not less than 25% in aggregate principal amount of the applicable Notes then outstanding, by notice in writing to the Issuer, each Guarantor and the Trustee, may declare the entire principal amount of all applicable Notes issued pursuant to the 2017 BATCAP Indenture and interest accrued and unpaid thereon, if any, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, without any further declaration or other act on the part of any holder. If certain Events of Default described in paragraph (vii), (viii) or (ix) above occur with respect to the Issuer and are continuing, the principal amount of and accrued and unpaid interest on all the applicable Notes issued pursuant to the 2017 BATCAP Indenture shall become immediately due and payable, without any declaration or other act on the part of the Trustee or any holder. Under certain circumstances, the holders of a majority in aggregate principal amount of the applicable Notes then outstanding, by written notice to the Issuer, each Guarantor and the Trustee, may waive defaults and rescind and annul declarations of acceleration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or shall impart any right consequent thereon.

The holders of a majority in aggregate principal amount of the applicable Notes then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, subject to certain limitations to be specified in the 2017 BATCAP Indenture, including providing to the Trustee indemnity satisfactory to it.

An Event of Default with respect to any series of Notes would not necessarily constitute an event of default with respect to the other series of Notes.

The 2017 BATCAP Indenture also provides that no holder of any Notes governed by the 2017 BATCAP Indenture may institute any action or proceeding at law or in equity or in bankruptcy or otherwise upon or under or with respect to the 2017 BATCAP Indenture, or for the appointment of a trustee, receiver, liquidator, custodian or other similar official or for any other remedy under the 2017 BATCAP Indenture (except suits for the enforcement of payment of overdue principal or interest) unless (1) the holder of a Note gives to the Trustee written notice of a continuing Event of Default, (2) the holders of at least 25% in principal amount of the then outstanding Notes make a written request to the Trustee to pursue the remedy, (3) the holder or holders of Notes offer, and if requested, provide to the Trustee indemnity reasonably satisfactory to the Trustee against any loss, liability or expense, (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer and, if requested, the provision of indemnity and (5) during such 60-day period the holders of a majority in principal amount of the then outstanding Notes do not give the Trustee a direction inconsistent with the request. The holder of a Note may not use the 2017 BATCAP Indenture to prejudice the rights of another holder of a Note or to obtain a preference or priority over another holder of a Note (it being understood that the Trustee does not have an affirmative duty to ascertain whether or not such actions or forbearances are unduly prejudicial to such holders).

SATISFACTION AND DISCHARGE

The 2017 BATCAP Indenture provides that BAT may, subject to satisfying certain conditions, discharge certain obligations to the holders of Notes of any series of Notes that have not already been delivered to the Trustee for cancellation and that either have become due and payable or will become due and payable within one year (or scheduled for redemption within one year) by depositing with the Trustee or Paying Agent, in trust, funds in an amount sufficient to pay the entire indebtedness on such series of Notes in respect of principal and premium, if any, and interest, if any, to the date of such deposit (if such Notes have become due and payable) or to the maturity thereof or redemption date, as the case may be, along with an officer's certificate and an opinion of counsel stating that all conditions precedent relating to the satisfaction and discharge of the 2017 BATCAP Indenture have been complied with.

LEGAL DEFEASANCE AND COVENANT DEFEASANCE

The 2017 BATCAP Indenture provides that the Issuer will have the option either (a) to be deemed (together with each Guarantor) to have paid and discharged the entire indebtedness represented by, and obligations under, a series of Notes and the applicable Guarantees and to have satisfied all the obligations under the 2017 BATCAP Indenture relating to the series of Notes (except for certain obligations, including those relating to the defeasance trust and obligations to register the transfer or exchange of Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain paying agencies) on the 91st day after the applicable conditions described below have been satisfied or (b) to cease (together with each Guarantor) to be under

any obligation to comply with the covenant described above under “—*Covenants of the Issuer and the Guarantors—Negative Pledge*” and the condition relating to the absence of any events of default under “—*Covenants of the Issuer and the Guarantors—Limitation on Mergers, Consolidations, Amalgamations and Combinations*” under the 2017 BATCAP Indenture, and non-compliance with such covenants and the occurrence of all events described above under “—*Events of Default*” will not give rise to any Event of Default under the 2017 BATCAP Indenture, at any time after the applicable conditions described below have been satisfied.

In order to exercise either defeasance option, the Issuer must (i) deposit with the Trustee or Paying Agent, irrevocably in money or Government Obligations (as defined in the 2017 BATCAP Indenture) funds sufficient in the opinion of a certified public accounting firm of national reputation for the payment of principal of and interest on the applicable outstanding Notes of any series to and including the Redemption Date irrevocably designated by the Issuer on or prior to the date of deposit of such money or Government Obligations, and must (ii) comply with certain other conditions, including delivering to the Trustee an opinion of U.S. counsel to the effect that beneficial owners of the applicable Notes will not recognize income, gain or loss for United States federal income tax purposes as a result of the exercise of such option and will be subject to United States federal income tax on the same amount and in the same manner and at the same time as would have been the case if such option had not been exercised and, in the case of clause (a) in the previous paragraph, which opinion must state that such opinion is based on a ruling received from or published by the United States Internal Revenue Service or on a change of law after August 15, 2017.

MODIFICATION AND WAIVER

Without Consent of Noteholders

The 2017 BATCAP Indenture contains provisions permitting the Issuer, each Guarantor and the Trustee, without the consent of the holders of any of the applicable Notes at any time outstanding under such 2017 BATCAP Indenture, from time to time and at any time, to enter into a supplemental indenture amending or supplementing such 2017 BATCAP Indenture, the Notes or the Guarantees in order to:

- convey, transfer, assign, mortgage or pledge to the holders of the applicable Notes or any person acting on their behalf as security for the applicable Notes any property or assets;
- evidence the succession of another person to the Issuer or any Guarantor, as the case may be, or successive successions, and the assumption by the successor person(s) of the covenants, agreements and obligations of the Issuer or any Guarantor, as the case may be, pursuant to the 2017 BATCAP Indenture;
- evidence and provide for the acceptance of appointment of a successor or successors to the Trustee and/or the Paying Agent, Transfer Agent, Calculation Agent and Registrar, as applicable;

- add to the covenants of, or the restrictions, conditions or provisions applicable to, the Issuer and any Guarantor, as the case may be, such further covenants, restrictions, conditions or provisions as the Issuer and any Guarantor, as the case may be, shall consider to be for the protection of the holders of the applicable Notes issued pursuant to the 2017 BATCAP Indenture, including to eliminate one or both prongs of the release provision under “—*Guarantees—Release*”, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default under the 2017 BATCAP Indenture permitting the enforcement of all or any of the several remedies provided in the 2017 BATCAP Indenture; *provided* that, in respect of any such additional covenant, restriction, condition or provision, such supplemental indenture may provide for a particular period of grace after default (which may be shorter or longer than that allowed in the case of other defaults) or may limit the remedies available to the Trustee upon such an Event of Default;
- if required by the requirements of the SEC, comply with any requirements of the SEC in connection with the qualification of the 2017 BATCAP Indenture under the TIA;
- modify the restrictions on, and procedures for, resale and other transfers of the applicable Notes pursuant to law, regulation or practice relating to the resale or transfer of restricted securities generally;
- cure any ambiguity or to correct or supplement any provision contained in the 2017 BATCAP Indenture, the Notes, or the Guarantees which may be defective or inconsistent with any other provision contained therein or to make such other provision in regard to matters or questions arising under the 2017 BATCAP Indenture, the Notes or the Guarantees as the Issuer, any Guarantor or the Trustee may deem necessary or desirable and which will not, in the opinion of the Issuer or any Guarantor, adversely affect the interests of the holders of the applicable Notes in any material respect;
- issue an unlimited aggregate principal amount of Notes under the 2017 BATCAP Indenture or to “reopen” the applicable series of Notes and create and issue additional notes having identical terms and conditions as the applicable Notes (or in all respects except for the issue date, issue price, payment of interest accruing prior to the issue date of such additional notes and/or the first payment of interest following the issue date of such additional notes) so that the additional notes are consolidated and form a single series with the outstanding applicable Notes; and
- evidence the addition of any new Guarantor of the Notes and the 2017 BATCAP Indenture, or the release of any Guarantor from its obligations with respect to the Notes and the 2017 BATCAP Indenture, in either case pursuant to the terms of the 2017 BATCAP Indenture.

With Consent of Noteholders

The 2017 BATCAP Indenture contains provisions permitting the Issuer, each Guarantor and the Trustee, with the consent of the holders of not less than a majority in aggregate principal amount of all series of the Notes affected by such supplemental indenture (voting as one class) at the time outstanding under the 2017 BATCAP Indenture (including consents obtained in connection with a tender offer or exchange offer for the applicable Notes), from time to time and at any time, to enter into a supplemental indenture for the purpose of amending, waiving or otherwise modifying the provisions of the 2017 BATCAP Indenture, the Notes and the Guarantees, or adding any provisions to or changing in any manner or eliminating any of the provisions of the applicable Notes or of modifying in any manner the rights of the holders of the applicable Notes; *provided*, that no such supplemental indenture may, without the consent of the holder of each of the Notes so affected:

- change the stated maturity of the applicable Note of, or the date for payment of any principal of, or installment of interest on, any applicable Note; or
- reduce the principal amount of or the rate or amount of interest on any applicable Note or Additional Amounts payable with respect thereto or reduce the amount payable thereon in the event of redemption or default or change the method for determining the interest rate thereon; or
- change the currency of payment of principal of or interest on any applicable Note or Additional Amounts payable with respect thereto; or change the obligation of the Issuer or any Guarantor, as the case may be, to pay Additional Amounts (except as otherwise permitted by such applicable Note); or
- impair the right to institute suit for the enforcement of any such payment on or with respect to any applicable Note; or
- reduce the percentage of the aggregate principal amount of the applicable Notes outstanding the consent of whose holders is required for any such supplemental indenture; or
- reduce the aggregate principal amount of any applicable Note outstanding necessary to modify or amend the 2017 BATCAP Indenture or any such Note or to waive any future compliance or past default or reduce the quorum requirements or the percentage of aggregate principal amount of any applicable Notes outstanding required for the adoption of any action at any meeting of holders of such Notes or to reduce the percentage of the aggregate principal amount of such Notes outstanding necessary to rescind or annul any declaration of the principal of all accrued and unpaid interest on any Note to be due and payable,

provided, that no consent of any holder of any applicable Note shall be necessary to permit the Trustee, the Issuer and each of the Guarantors to execute supplemental indenture as described under “*Without Consent of Noteholders*” above.

Any modifications, amendments or waivers to the 2017 BATCAP Indenture or to the conditions of the applicable Notes will be conclusive and binding on all holders of the applicable Notes, whether or not they have consented to such action or were present at the meeting at which such action was taken, and on all future holders of the applicable Notes, whether or not notation of such modifications, amendments or waivers is made upon such Notes. Any instrument given by or on behalf of any holder of such a Note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent registered holders of such Note.

PRESCRIPTION

Under New York's statute of limitations, any legal action upon the Notes in respect of interest or principal must be commenced within six years after the payment thereof is due.

NOTICE

Notices to holders of Notes will be given by first-class mail postage prepaid to the last addresses of such holders as they appear in the Notes register; provided, no such mailing shall be required if Notes are held through DTC, as such notice shall be given in accordance with applicable procedures of DTC. Such notices will be deemed to have been given on the date of such publication or mailing.

So long as any Global Notes representing the Notes are held in their entirety on behalf of a clearing system, or any of its participants, there may be substituted for the publication and mailing of notice to holders of Notes described above the delivery of the relevant notices to the clearing system, and its participants, for communication by them to the entitled accountholders. Any such notice shall be deemed to have been given on the day on which the said notice was given to the clearing system, and its participants.

LISTING

The Notes are listed on the New York Stock Exchange.

CONSENT TO SERVICE

Each of the non-U.S. Guarantors has initially designated BATCAP as their authorized agent for service of process in any legal suit, action or proceeding arising out of or relating to the performance of its obligations under the 2017 BATCAP Indenture and the Notes brought in any state or federal court in the Borough of Manhattan, the City of New York, and will irrevocably submit (but for those purposes only) to the non-exclusive jurisdiction of any such court in any such suit, action or proceeding.

GOVERNING LAW

The 2017 BATCAP Indenture, Notes and Guarantees shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws thereof.

REGARDING THE TRUSTEE AND AGENTS

Wilmington Trust, National Association is the trustee under the 2017 BATCAP Indenture. Citibank, N.A., London Branch has been appointed by the Issuer to act as registrar, transfer agent, calculation agent and paying agent for the Notes. Citibank, N.A., New York Branch replaced Citibank, N.A., London Branch as paying agent, registrar, transfer agent and calculation agent on October 16, 2018. From time to time, Citibank, N.A., London Branch, Citibank, N.A., New York Branch and their respective affiliates perform various other services for the BAT and its affiliates. The 2017 BATCAP Indenture contains limitations on the rights of the trustee, if it becomes a creditor of the Issuer or any Guarantor, to obtain payment of claims in some cases, or to realize on property received in respect of any of these claims as security or otherwise. The Trustee is permitted to engage in other transactions. However, if the Trustee acquires any conflicting interest (as defined in the TIA), it must either eliminate its conflict within 90 days, apply to the SEC for permission to continue or resign.

The 2017 BATCAP Indenture provides that except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in such 2017 BATCAP Indenture. During the continuance of an Event of Default of which the Trustee has received written notice, the Trustee will exercise such of the rights and powers vested in it under the 2017 BATCAP Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.



BRITISH AMERICAN TOBACCO P.L.C.

RULES

of the

BRITISH AMERICAN TOBACCO

2016 LONG TERM INCENTIVE PLAN

Adopted pursuant to shareholders' approval obtained on 27 April 2016
and amended by the Board on 10 December 2018
and amended by the Board on 3 June 2019
and amended by the Board on 25 February 2020
and amended by the Board on 19 February 2021

Herbert Smith Freehills LLP

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RULES OF THE BRITISH AMERICAN TOBACCO P.L.C. LONG TERM INCENTIVE PLAN

1. INTERPRETATION AND CONSTRUCTION

1.1 For the purposes of the Plan, the following terms shall have the meaning indicated below unless the context clearly indicates otherwise:

“**Award**” means one of a Conditional Award, a Forfeitable Share Award or an Option;

“**Board**” means the board of directors of the Company or a committee duly authorised by the board of directors or, following any Corporate Action, the Board or duly authorised committee as constituted immediately prior to the Corporate Action;

“**Claw-back**” means a recovery of value by the Company from a Participant in accordance with the provisions of Rule 15 (*Claw-back*) and Appendix 1 (*Operation of Claw-back*);

“**Company**” means British American Tobacco p.l.c. (registered in England and Wales under No. 3407696);

“**Conditional Award**” means a right to receive a transfer of Shares following vesting of the Award;

“**Control**” has the meaning given by Section 995 of the Income Tax Act 2007;

“**Corporate Action**” means any of the events referred to in:

(A) Rules 9.1 to 9.5 (but excluding a Reorganisation as defined in Rule 9.8); or

(B) if the Board determines that Awards will vest pursuant to such Rule, Rule 9.6;

“**Cross-Border Merger**” means a merger pursuant to the implementation in any relevant jurisdiction of Directive 2005/56/EC (on cross-border mergers of limited liability companies);

“**Dealing Day**” means any day on which the London Stock Exchange is open for trading;

“**Dealing Restriction**” means any restriction on the dealing in shares, whether direct or indirect, pursuant to any law, regulation, code or enactment in England and Wales and/or the jurisdiction in which the Participant is resident, or any share dealing code of the Company;

“**Eligible Employee**” means an employee (including an executive director) of any Group Company;

“**Employees’ Share Scheme**” has the meaning given by Section 1166 of the Companies Act 2006;

“**Financial Year**” means the financial year of the Company within the meaning of Section 390 of the Companies Act 2006;

“**Forfeitable Share Award**” means a beneficial interest in Shares, legal title to which is held by the Nominee subject to the restrictions set out in Rule 6 (*Additional terms applicable to Forfeitable Share Awards*) until, and which shall be transferred to the Participant following, the vesting of the Award;

“**Grant Date**” means the date on which a Conditional Award or Option is granted, or the date on which the Board determines that a Forfeitable Share Award shall be granted;

“**Group**” means the Company and any company which from time to time is a subsidiary of the Company, within the meaning of section 1159 of the Companies Act 2006 (each a “**Group Company**”);

“**Market Value**” means, in relation to a Share on any day, the mid-closing price of a Share on such day (as derived from the Daily Official List of the London Stock Exchange);

“**Nominee**” means any person appointed by the Company from time to time to hold legal title to the Shares subject to a Forfeitable Share Award on behalf of the Participant in accordance with these Rules (which may be the trustee of a Trust acting as a nominee);

“Normal Vesting Date” means:

- (A) subject to (B):
 - (i) where the Board determines that an extended vesting period shall apply, the fifth anniversary of the Grant Date, or otherwise,
 - (ii) the third anniversary of the Grant Date or any later date determined by the Board; or
- (B) in respect of an Award granted in respect of the recruitment of an Eligible Employee, any other date (which may be prior to the third anniversary of the Grant Date) as determined by the Board prior to the Grant Date;

“Option” means a right to acquire Shares, which may be exercised by the Participant following the vesting of the Award during any period permitted for exercise;

“Option Price” shall be nil, or such other amount as the Board may determine (provided that the Board may reduce or waive such amount at any time);

“Participant” means an Eligible Employee who has received an Award to the extent it has not been released and has not lapsed (or, following his death, his Personal Representatives);

“Performance Condition” means the performance condition to which an Award is subject, which may consist of one or more performance elements, being as set out in a Schedule to the Plan (as substituted or amended by the Board from time to time);

“Performance Period” means the period of three Financial Years beginning with the Financial Year in which the Grant Date falls, or such other period as is determined by the Board prior to the Grant Date in accordance with Rule 5;

“Personal Representatives” means, following his death, the Participant’s personal representatives, or a person fulfilling a similar function in any jurisdiction;

“Plan” means this British American Tobacco 2016 Long Term Incentive Plan, as amended from time to time;

“Quarter Day” means 31 March, 30 June, 30 September or 31 December;

“Rule” means a rule of this Plan;

“Share” means a fully paid ordinary share in the capital of the Company;

“Treasury Shares” means Shares to which Sections 724 to 732 of the Companies Act 2006 apply;

“Trust” means any employee benefit trust from time to time established by the Company;

“U.S. Taxpayer” has the meaning given in Rule 3.11 (*U.S. Taxpayers*); and

“vesting” means:

- (A) Shares subject to a Conditional Award becoming due to be transferred to the Participant;
 - (B) Shares subject to a Forfeitable Share Award ceasing to be subject to the restrictions set out in Rule 6 (*Additional terms applicable to Forfeitable Share Awards*), and legal title to such Shares becoming due to be transferred to the Participant; or
 - (C) an Option becoming exercisable,
- (and **“vest”** shall be construed accordingly).

1.2 In this Plan unless the context requires otherwise:

1.2.1 the headings are inserted for convenience only and do not affect the interpretation of any Rule;

1.2.2 a reference to a statute or statutory provision includes a reference:

- (A) to that statute or statutory provision as from time to time consolidated, modified, re-enacted or replaced by any statute or statutory provision;
- (B) to any repealed statute or statutory provision which it re-enacts (with or without modification); and
- (C) to any subordinate legislation made under it;

1.2.3 words in the singular include the plural, and vice versa;

1.2.4 a reference to the masculine shall be treated as a reference to the feminine and vice versa;

1.2.5 a reference to a person shall include a reference to a body corporate; and

1.2.6 a reference to writing or written form shall include any legible format capable of being reproduced on paper, irrespective of the medium used.

1.3 In this Plan:

1.3.1 a reference to the **“transfer of Shares”** (or similar) shall include both the issue and allotment of Shares and the transfer of Treasury Shares; and

1.3.2 a provision obliging, or permitting, any company to do any thing shall be read as obliging, or permitting, such company to do that thing, or procure that thing to be done; and

1.3.3 the use of the word **“including”** shall mean including without limitation and without prejudice to the generality of the foregoing.

2. PLAN LIMITS

2.1 Pursuant to the Plan:

2.1.1 subject to Rule 2.2, the Board may not grant a Conditional Award or Option; and

2.1.2 Shares may not be issued for the purpose of a Forfeitable Share Award,

if the number of Shares subject to such proposed Award (the **“Relevant Shares”**) would cause either of the limits in Rules 2.3 or 2.4 to be breached.

2.2 Rule 2.1 shall not apply in respect of a Conditional Award or Option granted on terms that it shall not be capable of being satisfied by the issue of Shares.

5 per cent limit: discretionary Employees’ Share Scheme

2.3 The number of Relevant Shares, when added to the aggregate of:

2.3.1 the number of Shares subject to outstanding options or awards granted within the previous 10 years under the Plan or any other discretionary Employees’ Share Scheme adopted by the Company which may be satisfied by the issue of Shares; and

2.3.2 the number of Shares actually issued within the previous 10 years under the Plan, under any other discretionary Employees’ Share Scheme or to a Trust (but excluding any of those Shares that were used to satisfy an option or award granted more than 10 years previously, and without double counting any Shares which the Board has determined are to be used to satisfy options or awards counted under Rule 2.3.1 above),

may not exceed such number as represents 5 per cent of the Company’s issued share capital immediately prior to such proposed grant or issue.

10 per cent limit: Employees' Share Scheme

- 2.4 The number of Relevant Shares, when added to the aggregate of:
- 2.4.1 the number of Shares subject to outstanding options or awards granted within the previous 10 years under the Plan or any other Employees' Share Scheme adopted by the Company which may be satisfied by the issue of Shares; and
 - 2.4.2 the number of Shares actually issued within the previous 10 years under the Plan, under any other Employees' Share Scheme or to a Trust (but excluding any of those Shares: that were used to satisfy an option or award granted more than 10 years previously, and without double counting any Shares which the Board has determined are to be used to satisfy options or awards counted under Rule 2.4.1 above),
- may not exceed such number as represents 10 per cent of the Company's issued share capital immediately prior to such proposed grant or issue.

Treasury Shares

- 2.5 References in this Rule 2 to the issue of Shares shall include the transfer of Treasury Shares, but only until such time as the guidelines issued by institutional investor bodies cease to provide that they should be so included.

3. AWARDS**Eligibility**

- 3.1 Awards may be granted to Eligible Employees selected by the Board.

Timing of grants

- 3.2 An Award may only be granted:
- 3.2.1 during the period of 42 days commencing on the date on which the Plan is approved shareholders of the Company in general meeting;
 - 3.2.2 during the period of 42 days commencing on the Dealing Day immediately following the day on which the Company announces its results for the preceding financial year, half-year or other period;
 - 3.2.3 in respect of an Award to be granted in respect of the recruitment of an Eligible Employee, as soon as reasonably practicable after the Eligible Employee commences holding office or employment with any Group Company; and/or
 - 3.2.4 at such time at which the Board determines that exceptional circumstances exist which justify the grant of the Award,
- or, in any such case, if the grant of Awards during such period or at such time would be contrary to any Dealing Restriction, as soon as reasonably practicable after such restriction ceases to apply.

Individual limit

- 3.3 An Award may not be granted to an Eligible Employee where it would cause the aggregate Relevant Value of the Shares subject to such Award and any Award(s) granted to the Eligible Employee in the same Financial Year to exceed an amount equal to 500% of the gross annual basic salary of that Eligible Employee as at the first day of such Financial Year or, if later, the first day of the Eligible Employee's employment with the Group during such Financial year.

An Award granted in breach of this limit shall immediately lapse in respect of the number of Shares which cause this limit to be breached. Awards which have been released or have lapsed, or which are granted in connection with the recruitment of an Eligible Employee in lieu of incentive awards granted by the individual's former employer which are forfeited, and any right to receive Shares as a dividend equivalent, shall be ignored for this purpose.

In this Rule 3.3, the “**Relevant Value**” of a Share subject to an Award means either (as determined by the Board): (i) the Market Value of a Share on the Dealing Day immediately preceding the Grant Date; or (ii) the average of the Market Values of a Share over such number of Dealing Days preceding the Grant Date as the Board may determine (all being within the period of 30 days preceding the Grant Date and, where the Award is granted within the period in Rule 3.2.2, being on or after the date of the results announcement).

- 3.4 Where an Eligible Employee’s gross annual basic salary is denominated in a currency other than pounds sterling, for the purposes of Rule 3.3 above such gross annual basic salary shall be converted into pounds sterling on such basis as the Board may reasonably determine.

Method of grant

- 3.5 An Award shall be granted by the Board.
- 3.6 A Conditional Award or an Option shall be granted by deed.
- 3.7 The Company shall procure that the Shares subject to a Forfeitable Share Award shall, on or as soon as reasonably practicable following the Grant Date, be issued to or acquired by a Nominee, and shall thereafter be held on behalf of the Participant until the date on which the Forfeitable Share Award vests or such earlier date as the Forfeitable Share Award lapses.
- 3.8 No payment for the grant of an Award shall be made by the Participant.
- 3.9 A Participant may within 30 days of the Grant Date release an Award (in full but not in part) by written notice to the Company. Where a Participant does not release an Award within such period, the Participant shall be deemed to have accepted the Award on the terms set out in the Rules. Alternatively, it may be a term of the grant of an Award that the Participant shall be required to accept the terms of the Award within such period following grant as may be determined by the Board and, where the Board specifies such period, the Award shall lapse at the end of such period if the terms of the Award have not been accepted by the Participant.

Award notification

- 3.10 As soon as practicable following the Grant Date the Company shall notify a Participant of the grant of an Award. Such notification shall specify:
- 3.10.1 whether the Award takes the form of a Conditional Award, a Forfeitable Share Award or an Option;
- 3.10.2 the Grant Date;
- 3.10.3 the Normal Vesting Date;
- 3.10.4 the number of Shares in respect of which the Award is granted;
- 3.10.5 in relation to an Option, the Option Price (if any);
- 3.10.6 the full terms of the Performance Condition and the Performance Period;
- 3.10.7 if applicable, that the dividend equivalent provisions of Rule 11 (*Dividend equivalent*) shall apply; and
- 3.10.8 that the Award is subject to the claw-back provisions of Rule 15 (*Claw-back*) and Appendix 1 (*Operation of Claw-back*).

U.S. Taxpayers

- 3.11 The provisions of Appendix 2 (*Awards Granted to U.S. Taxpayers*) shall apply to a Conditional Award or an Option that is held by any Participant while he or she is subject to taxation under the U.S. Internal Revenue Code of 1986, as amended (a “**U.S. Taxpayer**”). References to Code §409A are to §409A of the U.S. Internal Revenue Code of 1986, as amended.

4. AWARDS ARE NON-TRANSFERABLE

- 4.1 A Participant may not transfer, assign, pledge, charge or otherwise dispose of, or grant any form of security or other interest over, any part of his interest in an Award. An Award shall (unless the Board determines otherwise) lapse on the Participant doing so (whether voluntarily or involuntarily), being deprived of the beneficial ownership of an Award by operation of law, or becoming bankrupt.
- 4.2 Rule 4.1 does not restrict the transmission of an Award to the Participant's Personal Representatives following his death.

5. PERFORMANCE CONDITION

- 5.1 An Award shall be granted subject to the Performance Condition.
- 5.2 Subject to Rule 5.3, each element of the Performance Condition shall be assessed over a period of not less than three years, ending no later than the Normal Vesting Date.
- 5.3 An Award granted in respect of the recruitment of an Eligible Employee may be granted on terms that the Performance Condition shall be assessed over such shorter period as the Board may determine prior to the grant of the Award.
- 5.4 If events happen following the Grant Date which cause the Board to determine that any element of the Performance Condition is no longer a fair measure of the Company's performance, the Board may alter the terms of such element as it determines to be appropriate but not so that the revised target is, in the opinion of the Board, materially less challenging than was intended in setting the original Performance Condition.
- 5.5 The Performance Condition may not be retested.

6. ADDITIONAL TERMS SPECIFIC TO FORFEITABLE SHARE AWARDS**Restrictions applicable to Forfeitable Share Awards**

- 6.1 The Participant shall be (subject to the Award lapsing) the beneficial owner of the Shares subject to a Forfeitable Share Award. For the avoidance of doubt, such beneficial interest shall be subject to the restriction in Rule 4.1 (*Awards are non-transferable*).
- 6.2 Until a Forfeitable Share Award vests, the Nominee shall refuse to act on any instruction from the Participant to (and, subject to Rule 6.3, shall not) transfer, assign, pledge, charge or otherwise dispose of, or grant any form of security or other interest over, legal title to the Shares subject to the Award or any interest therein, or enter into any agreement or accept any offer to do any such thing.
- 6.3 The Nominee shall take such action as is necessary to give effect to Rules 9.8 (*Roll-over of Award*), 13.1 (*Tax Liability*), 15 (*Claw-back*), 16 (*Variation of capital*) and Appendix 1 (*Operation of Claw-back*) and without further instruction from the Participant (and for the avoidance of doubt nothing in this Rule 6 shall prevent Shares subject to a Forfeitable Share Award becoming subject to a Corporate Action pursuant to Rule 9.3 (*Scheme of compromise or arrangement*)).

Voting rights on forfeitable Shares

- 6.4 Unless the Board determines otherwise, the Participant shall be entitled to direct the Nominee to vote the Shares subject to a Forfeitable Share Award, provided that the Nominee shall not be bound to seek directions from the Participant to vote and in the absence of any such direction shall not vote.

Dividend rights on forfeitable Shares

- 6.5 Unless the Board determines otherwise, the Participant shall be entitled to receive any dividends paid in respect of Shares subject to a Forfeitable Share Award (and if the Board so determines the Nominee shall waive the right to receive any dividends in respect of such Shares).

Lapse of Forfeitable Share Award

- 6.6 Where a Forfeitable Share Award lapses, the Participant shall cease to be beneficially entitled to the Shares subject to the Award, and the beneficial interest in such Shares shall, unless the Board directs otherwise, revert to a Trust specified by the Board for nil or nominal consideration.

7. VESTING**Normal vesting**

- 7.1 An Award shall vest on the Normal Vesting Date.

Vesting subject to Dealing Restrictions

- 7.2 A Conditional Award or a Forfeitable Share Award shall not vest unless, and vesting shall be delayed until, the Board is satisfied that at that time:

- 7.2.1 such vesting;
 7.2.2 the transfer of Shares to the Participant and the sale of Shares pursuant to Rule 13 (Tax Liability); and
 7.2.3 any action needed to be taken by the Company to give effect to such vesting

is not contrary to any Dealing Restriction.

Extent of vesting determined by the Performance Condition

- 7.3 The extent to which an Award shall be capable of vesting (if at all) shall be determined by reference to the Performance Condition. At the end of the period over which the Performance Condition is assessed, the Award shall lapse to the extent that the Performance Condition is not met.
- 7.4 Where an Award vests (pursuant to Rule 7.7 (*International Transfers*), Rule 8 (*Cessation of office or employment*) or 9 (*Corporate Actions*)) prior to the end of the period over which any element of the Performance Condition is assessed, such element shall be assessed based on performance to the last Quarter Day prior to the date on which the Award vests using such information (not limited to published accounts) as the Board shall determine.

Effect of vesting

- 7.5 The effect of the vesting of an Award is that:
- 7.5.1 the Shares in respect of which a Conditional Award vests shall be transferred to the Participant as soon as is reasonably practicable (which may include transferring the Shares on more than one consecutive Dealing Day on such basis as the Board may determine);
- 7.5.2 the Shares in respect of which a Forfeitable Share Award vests shall cease to be subject to the restrictions set out in Rule 6 (*Additional terms applicable to Forfeitable Share Awards*), and legal title to such Shares shall be transferred to the Participant as soon as is reasonably practicable; and
- 7.5.3 an Option shall, to the extent that it vests, become exercisable in accordance with Rule 10 (*Options*).

- 7.5A Shares shall not cease to be subject to the restrictions set out in Rule 6 (*Additional terms applicable to Forfeitable Share Awards*) until such time as it is practicable for a number of Shares in respect of such vesting to be sold in accordance with Rule 13.1.1 (*Tax Liability*) (such that a proportion of such Shares may cease to be subject to such restrictions on each Dealing Day within a period of consecutive Dealing Days (and on such basis) as the Board may determine), unless the Participant has in advance made other arrangements to pay the amount of the Tax Liability arising in respect of such vesting to the Company or the Board determines otherwise.

Disciplinary proceedings

- 7.6 Unless the Board determines otherwise, an Award shall not vest while a Participant is subject to an investigation process and/or formal disciplinary process (or similar), or where a Participant has been served with notice that such a process may be instigated without such notice having been rescinded, and vesting shall (subject to the Award lapsing to any extent prior to or as a result of the conclusion of such process pursuant to Rule 8 (*Cessation of office or employment*) or 15 (*Claw-back*)) be delayed until the conclusion of such process.

International transfers

- 7.7 Where a Participant, whilst continuing to hold an office or employment with a Group Company, is to be transferred to work in another country, and as a result the Board considers that following such transfer either he or a Group Company is likely to suffer a tax disadvantage in respect of an Award or, due to securities or exchange control laws, the Participant is likely to be restricted in his ability to receive Shares pursuant to an Award, to exercise an Option and/or to hold or deal in Shares, the Board may decide that an Award shall vest on such date as it may determine, in which case:
- 7.7.1 the proportion of the Award which may vest shall be limited (unless the Board determines otherwise) to a pro rata proportion on the basis of the number of months (rounded up to the nearest whole month) which have elapsed from the first day of the Performance Period to such vesting date, as compared to the number of whole months within the Performance Period. Any remainder of the Award shall lapse; and
- 7.7.2 an Option may be exercised during such period as may be determined by the Board ending no later than the date on which the Participant's transfer takes effect.

8. CESSATION OF OFFICE OR EMPLOYMENT

Cessation where Awards lapse

- 8.1 An Award shall lapse:
- 8.1.1 on the Participant ceasing to hold office or employment with any Group Company; or
- 8.1.2 if the Participant gives or receives notice of such cessation, on such earlier date as may be determined by the Board, save in each case where Rule 8.2 or Rule 8.6 applies.

Reasons for cessation where Awards remain capable of vesting

- 8.2 An Award shall not lapse pursuant to Rule 8.1 where the reason for the cessation or notice is:
- 8.2.1 disability, ill-health or injury (as evidenced to the satisfaction of the Board);
- 8.2.2 redundancy (within the meaning of the Employment Rights Act 1996);

- 8.2.3 the transfer of the Participant's employment in connection with the disposal of a business or undertaking, or a part- business or part-undertaking;
- 8.2.4 the company with which the Participant holds office or employment ceasing to be a Group Company; or
- 8.2.5 any other reason, if the Board so determines.

Where the Board exercises its discretion under Rule 8.2.5 the Board may impose additional conditions on the Award (including as to when the Award may vest).

Cessation prior to the Normal Vesting Date

- 8.3 Where prior to the Normal Vesting Date a Participant ceases to hold office or employment with any Group Company for any of the reasons specified in Rule 8.2:
 - 8.3.1 an Award shall not vest at the date of such cessation, but shall continue to be capable of vesting (in which case an Option may be exercised during the period of six months, or such other period as may be determined by the Board, from such date on which the Award may vest, and shall lapse at the expiry of such period); or
 - 8.3.2 the Board may determine that the Award shall instead vest on or at any time following the date of cessation (in which case an Option may be exercised during the period of six months, or such other period as may be determined by the Board, from such vesting date, and shall lapse at the expiry of such period).

For the avoidance of doubt, the Board may make the determination in Rule 8.3.2 on a standing basis (subject to revocation of such determination at any time) in respect of all Awards to be granted to a specified Eligible Employee or Eligible Employees.

- 8.4 Where prior to the Normal Vesting Date a Participant ceases to hold office or employment with any Group Company for any of the reasons specified in Rule 8.2, unless the Board determines otherwise:
 - 8.4.1 if the date of such cessation falls within the first six months of the Performance Period, the Award shall lapse in full on the date of such cessation; or
 - 8.4.2 where Rule 8.4.1 does not apply, the proportion of the Award which may vest (under any Rule) shall be limited to a pro rata proportion on the basis of the number of months (rounded up to the nearest whole month) which have elapsed from the first day of the Performance Period to the date of cessation, as compared to the number of whole months within the Performance Period. Any remainder of the Award shall lapse.

Exercise period in the event of cessation on or after the Normal Vesting Date

- 8.5 Where on or after the Normal Vesting Date a Participant ceases to hold office or employment with any Group Company for any of the reasons specified in Rule 8.2, an Option shall lapse at the expiry of the period of six months, or such other period as may be determined by the Board, from the date of cessation.

Death

- 8.6 An Award shall vest on the Participant's death. An Option may be exercised (by the Participant's Personal Representatives) during a period of one year from the date of the Participant's death and shall lapse at the expiry of such period. Where a Participant dies during an exercise period pursuant to either Rule 8.3 or 8.5 an Option shall not lapse as a result of such Rule until the expiry of the twelve month period in this Rule 8.6.

Cessation following a Corporate Action

- 8.7 Where a Participant ceases to hold office or employment with any Group Company following a Corporate Action within the relevant exercise period referred to in Rule 9

(*Corporate Actions*), an Option shall not lapse pursuant to this Rule 8 until the expiry of the relevant exercise period in Rule 9 (*Corporate Actions*). This Rule 8.7 shall not apply where the cessation is by way of (or occurs where there are circumstances which the Board determines would have justified) summary dismissal or service of notice of termination of office or employment on the grounds of misconduct.

Meaning of cessation of office or employment

- 8.8 No provision of this Rule 8 shall apply in respect of any cessation of office or employment if immediately following the cessation the Participant holds an office or employment with any Group Company, or in respect of any notice of cessation if arrangements are in place that mean immediately following the notice becoming effective the Participant will hold an office or employment with any Group Company.

9. CORPORATE ACTIONS

General offers

- 9.1 Awards shall vest:

- 9.1.1 upon a person obtaining Control of the Company as a result of making a general offer to acquire Shares;
- 9.1.2 upon a person, having obtained Control of the Company, making a general offer to acquire Shares; or
- 9.1.3 if a person makes a general offer to acquire Shares that would result in that person obtaining Control of the Company and the Board so determines, on the date which the Board determines to be the last practicable date prior to the date on which it expects such person to obtain Control of the Company,

in each case being a general offer to acquire all of the Shares (other than Shares held by the person making the offer and any person connected to that person).

Options may be exercised during the period of six months from the date of any such event (but if not exercised, Options shall not lapse at the expiry of such period).

Compulsory acquisition

- 9.2 Awards shall vest upon a person becoming entitled to acquire Shares under Sections 979 to 982 of the Companies Act 2006.

Options may be exercised during a period of one month from the date on which that person first becomes so entitled, and shall lapse at the expiry of such period.

Scheme of compromise or arrangement

- 9.3 Awards shall vest upon a Court sanctioning a compromise or arrangement which, on becoming effective, would result in:

- 9.3.1 any person obtaining Control of the Company;
- 9.3.2 the undertaking, property and liabilities of the Company being transferred to another existing or new company; or
- 9.3.3 the undertaking, property and liabilities of the Company being divided among and transferred to two or more companies, whether existing or new.

Options may be exercised during a period of six months from the date of a Court sanctioning such a compromise or arrangement (or, if earlier, to the day prior to the date on which a transfer as described in Rule 9.3.2 or Rule 9.3.3 is to become effective), and shall lapse at the expiry of such period.

Merger

- 9.4 Awards shall vest upon a competent authority approving a Cross-Border Merger, pursuant to which the Company shall cease to exist. Options may be exercised during the period from the date of a competent authority approving a Cross-Border Merger until the day prior to the date on which the Cross-Border Merger is to become effective, and shall lapse at the expiry of such period.

Voluntary winding-up

- 9.5 Awards shall vest in the event of a notice being given of a resolution for the voluntary winding-up of the Company. Options may be exercised during a period of two months from the date of such a notice being given and shall lapse at the expiry of such period.

Demerger or special dividend

- 9.6 If the Board so determines, Awards may vest following the announcement of a demerger of a substantial part of the Group's business, a special dividend or a similar event affecting the value of Shares to a material extent on such date specified by the Board. Where the Board makes such determination, Options may be exercised during a period of two months (or such other period as the Board may determine) from the date specified by the Board and, unless the Board determines otherwise, shall lapse at the expiry of such period.

Extent of vesting on a Corporate Action

- 9.7 Where an Award vests (and, in the case of an Option, is exercised) pursuant to any of Rules 9.1 to 9.6, the proportion of the Award which may vest shall be limited (unless the Board determines otherwise) to a pro rata proportion on the basis of the number of months (rounded up to the nearest whole month) which have elapsed from the first day of the Performance Period to the date of the Corporate Action, as compared to the number of whole months within the Performance Period. Any remainder of the Award shall lapse.

Roll-over of Award on a Reorganisation or takeover

- 9.8 Unless the Board determines otherwise, an Award shall not vest pursuant to this Rule 9 if, as a result of any event that would otherwise be a Corporate Action, a company will obtain Control of the Company or will obtain substantially all of the assets of the Company (the "Acquiring Company"), and either:

- 9.8.1 the Acquiring Company will immediately following such event have (either directly or indirectly) substantially the same shareholders and approximate shareholdings as those of the Company prior to such event (a "**Reorganisation**"); or
- 9.8.2 the Board, with the agreement of the Acquiring Company, determines that the Award shall not vest as a result of such event and so notifies the Participant prior to the occurrence of the date on which the Award would otherwise vest.

In such case:

- 9.8.3 the existing Option or Conditional Award (the "Old Award") shall lapse on the occurrence of the relevant event, provided that the New Parent Company shall grant a replacement right to receive shares (the "**New Award**") over such number of shares in the New Parent Company which are of equivalent value to the number of Shares in respect of which the Old Award was outstanding. The New Award shall be granted on the terms of the Plan, but as if the New Award had been granted at the same time as the Old Award and shall continue to be subject to the Performance Condition (but subject to Rule 5.4 (*Performance Condition*));
- 9.8.4 where the event is an event specified in Rule 9.1.1 or Rule 9.1.2 (notwithstanding that the Award shall not vest pursuant to such Rule) the Nominee shall action the acceptance of the general offer in respect of the Shares subject to the Forfeitable Share Award; and/or

- 9.8.5 the proceeds from the relevant event received by the Nominee in respect of the Shares subject to the Forfeitable Share Award, whether in cash or securities (and the Nominee shall accept, on behalf of the Participant, any offer of securities in preference to the receipt of cash), shall continue to be held on behalf of the Participant subject to the terms of the Plan, provided that a proportion of such proceeds as is of equal value to the amount of any Tax Liability arising in respect of the Award at such time shall vest and shall be dealt with in accordance with Rule 13.1.1 (*Tax Liability*) (and references in the Plan to the Shares subject to the Forfeitable Share Award shall be read as being to the proceeds that continue to be held on behalf of the Participant).

For the purposes of this Rule 9.8:

- 9.8.6 the “**New Parent Company**” shall be the Acquiring Company, or, if different the company that is the ultimate parent company of the Acquiring Company within the meaning of section 1159 of the Companies Act 2006; and
- 9.8.7 the terms of the Plan shall following the date of the relevant event be construed as if:
- (A) the reference to “**British American Tobacco p.l.c.**” in the definition of “**Company**” in Rule 1 (*Interpretation and construction*) were a reference to the company which is the New Parent Company, and
 - (B) save where the New Parent Company is listed, Rule 18.2 (*Amendments*) were omitted.

Compulsory winding-up

- 9.9 An Award shall lapse on the passing of an effective resolution, or the making of a Court order, for the compulsory winding-up of the Company.

Concert parties

- 9.10 For the purposes of this Rule 9, a person shall be deemed to have Control of the Company where he and any others acting in concert with him together have Control of the Company.

10. OPTIONS

- 10.1 An Option may be exercised, in full or in any number of parts, by the delivery to the Company (or such other person nominated by the Company) of a valid notice of exercise in such form as the Board may prescribe together with payment of the Option Price for the Shares in respect of which the Option is exercised (if any).
- 10.2 An Option shall lapse on the tenth anniversary of the Grant Date (or such earlier date as the Board may determine prior to the Grant Date).
- 10.3 Any Shares in respect of which the Option is exercised shall be transferred to the Participant as soon as reasonably practicable (which may include transferring the Shares on more than one consecutive Dealing Days on such basis as the Board may determine).
- 10.4 An Option may not be exercised unless the Board is satisfied that at such time:
- 10.4.1 such exercise,
 - 10.4.2 the transfer of Shares to the Participant and the sale of Shares pursuant to Rule 13; and
 - 10.4.3 any action needed to be taken by the Company to give effect to such exercise,

is not contrary to any Dealing Restriction. Where the exercise, transfer or dealing in Shares is contrary to any Dealing Restriction on the last Dealing Day in any of the periods referred to in Rules 8.3, 8.5 or 8.6 (*Rule 8 being in relation to cessation of office or employment*) or Rules 9.1 to 9.3 or 9.6 (*Rule 9 being in relation to Corporate Actions*), such period shall be extended to the end of the first Dealing Day thereafter on which the Board is satisfied that the exercise, transfer and dealing in Shares is not contrary to any Dealing Restriction.

- 10.5 An Option shall lapse on the earliest date provided under any Rule (save only as expressly provided in Rules 8.6 (*Death*) and 8.7 (*Cessation following a Corporate Action*)).

11. DIVIDEND EQUIVALENT

- 11.1 If at any time prior to the Normal Vesting Date the Board so determines, on or following the date on which an Award vests the Company may:
- 11.1.1 make a cash payment to the Participant equal to the amount of any dividends that the Participant would have received in respect of the number of Shares in respect of which the Award vests had the Participant been the full legal and beneficial owner of such Shares during the period from the Grant Date to the date the Award vests; or
- 11.1.2 transfer to the Participant such number of additional Shares as have an aggregate Market Value on the date on which the Award vests equal to the amount determined in accordance with Rule 11.1.1 above.
- 11.2 A cash payment under Rule 11.1 may be made in a currency other than pounds sterling, in which case the amount of such payment shall be converted into such other currency on such basis as is determined by the Board.
- 11.3 Rule 11.1 shall not apply in respect of a Forfeitable Share Award unless the Board determines pursuant to Rule 6.5 (*Dividend rights on forfeitable Shares*) that the Participant shall not be entitled to receive dividends paid in respect of the Shares subject to the Forfeitable Share Award.

12. CASH ALTERNATIVE – OPTIONS AND CONDITIONAL AWARDS

- 12.1 This Rule 12 shall not apply in respect of any Award granted to a Participant resident in any jurisdiction where the grant of an Award which provides for a cash alternative would be unlawful, fall outside any applicable exemption under securities, exchange control or similar regulations, or would cause adverse tax or social security (or similar) contribution consequences for the Company or the Participant (in each case as determined by the Board) or where the Board determines prior to the Grant Date that this Rule 12 shall not apply.
- 12.2 The Board may determine prior to the Grant Date that a Conditional Award or Option shall only be satisfied in cash, in which case the Award shall not be a right to acquire Shares, and the vesting of the Conditional Award or exercise of the Option shall be satisfied in full by the payment of a cash equivalent amount, in substitution for the transfer of Shares.
- 12.3 Where the Board has made no determination pursuant to Rule 12.1 or 12.2 in respect of any Conditional Award or Option, the Board may determine at any time prior to the transfer of Shares pursuant to such Award that the vesting of the Conditional Award or the exercise of the Option (or a part thereof) shall be satisfied by the payment of a cash equivalent amount, in substitution for the transfer of Shares.
- 12.4 A “**cash equivalent amount**” shall be calculated as the number of Shares which would otherwise be transferred in respect of the relevant vesting or exercise but which are being substituted for the cash equivalent amount, multiplied by an amount equal to the relevant value less, in the case of an Option, the Option Price (if any), where the “relevant value” is the Market Value of a Share on the date on which the Award vests or, in the case of an Option, is exercised (or, in either case, where only a part of the Award is to be satisfied with payment of a cash equivalent amount, is the Market Value of a Share on the date on which Shares are transferred to the Participant pursuant to the Award)).
- 12.5 A cash equivalent amount shall be paid as soon as reasonably practicable following the relevant vesting or exercise.

- 12.6 A cash equivalent amount may be paid in a currency other than pounds sterling, in which case the cash equivalent amount shall be converted into such other currency on such basis as is determined by the Board.

13. TAX LIABILITY

- 13.1 When any Tax Liability arises in respect of an Award, the Participant authorises any Group Company:

- 13.1.1 to retain and sell legal title to such number of the Shares which would otherwise have been transferred to the Participant on vesting or exercise of the Award, or any part thereof, (notwithstanding that beneficial title shall pass) as may be sold for aggregate proceeds equal to the Group Company's estimate of the amount of the Tax Liability;
- 13.1.2 to deduct an amount equal to the Group Company's estimate of the Tax Liability from any cash payment made under the Plan; and/or
- 13.1.3 where the amount realised under Rule 13.1.1 or deducted under Rule 13.1.2 is insufficient to cover the full amount of the Tax Liability, to deduct any further amount as is necessary through payroll,

and in each case to apply such amount in paying the amount of the Tax Liability to the relevant revenue authority or in reimbursing the relevant Group Company for any such payment, provided that, where the amount realised under Rule 13.1.1 or deducted under Rule 13.1.2 is greater than the actual Tax Liability, the Group Company shall repay the excess to the Participant as soon as reasonably practicable.

The Group Company shall be entitled to make the estimates referred to in this Rule 13.1 on the basis of the highest rates of tax and/or social security applicable at the relevant time in the jurisdiction in which the Group Company is liable to account for the Tax Liability, notwithstanding that the Tax Liability may not arise at such rates.

- 13.2 "**Tax Liability**" shall mean any amount of tax and/or social security (or similar) contributions which any Group Company becomes liable to pay on behalf of the Participant to the revenue authorities in any jurisdiction, together with all or such proportion (if any) of employer's social security contributions which would otherwise be payable by any Group Company as is determined to be recoverable from the Participant (to the extent permitted by law) by the Board, or which the Participant has agreed to pay or which are subject to recovery pursuant to an election to which paragraph 3B of Schedule 1 to the Social Security Contributions and Benefits Act 1992 applies.

14. VESTED SHARE ACCOUNTS

- 14.1 Legal title to any Shares which are due to be transferred to the Participant pursuant to the Plan may be transferred to a person (the "**Vested Share Account Provider**") appointed by the Company from time to time to hold legal title to such Shares on behalf of the Participant.
- 14.2 The Vested Share Account Provider shall receive and hold Shares on behalf of the Participant in accordance with such terms and conditions as are agreed by the Company from time to time, and by participating in the Plan the Participant irrevocably agrees to those terms and conditions (which shall be available to the Participant on request to the Company).
- 14.3 The transfer of any Shares to the Vested Share Account Provider shall satisfy any obligation of the Company under the Plan to transfer Shares to the Participant (and references in the Plan to Shares (or legal title thereof) having been transferred to the Participant shall be read accordingly).
- 14.4 The terms and conditions referred to in Rule 14.2 above may include terms that the Participant shall not be entitled to transfer, assign, pledge, charge or otherwise dispose of, or grant any form of security or other interest over, some or all of the Shares if to do so would be in breach of the Participant's obligations under the Company's shareholding requirements as they apply to such Participant.

15. CLAW-BACK**Claw-back events**

15.1 The Board may at any time prior to the fifth anniversary of the Grant Date of an Award determine that a Claw-back shall apply in respect of the Award, if the Board determines that:

15.1.1 there has been a material misrepresentation in relation to the performance of any Group Company, relevant business unit and/or the Participant on the basis of which the extent to which the Award will be capable of vesting, or vested, was determined (which may include, but shall not be limited to: (i) a misstatement of the financial results and/or health of any Group Company; (ii) an erroneous calculation in relation to any Group Company's results or other performance benchmark; (iii) errors in any Group Company's financial statements; or (iv) discrepancies in the financial accounts, and, for the avoidance of doubt, notwithstanding that such misrepresentation may not arise from fraud or reckless behaviour); or

15.1.2 an erroneous calculation was made in assessing the extent to which the Award is to be capable of vesting, or vested,

and, in either case, the Award is capable of vesting, or vested, in respect of a greater number of Shares than would have been the case had there not been such a misrepresentation or had such error not been made.

15.2 The Board may at any time (whether before or after vesting) determine that a Claw-back shall apply in respect of an Award where the Participant is found to have committed at any time prior to the vesting of the Award, including prior to grant, an act or omission which justifies, or in the opinion of the Board would have justified, summary dismissal or service of notice of termination of office or employment on the grounds of misconduct.

Applying Claw-back

15.3 A Claw-back shall be applied in accordance with the provisions of Appendix 1 (*Operation of Claw-back*).

Lapse of Awards to give effect to claw-back of other awards

15.4 By participating in the Plan, the Participant acknowledges that the Board may lapse any Award to such extent as it determines to be necessary (including in full) in order to give effect to a claw-back under the terms of the Plan or any other Employees' Share Scheme or bonus scheme operated from time to time by any Group Company.

No Claw-back following Corporate Action

15.5 No Claw-back shall be capable of being applied at any time following any Corporate Action, save where the determination that the Claw-back shall apply was made prior to such event (and, for the avoidance of doubt, a Corporate Action does not include a Reorganisation).

16. VARIATION OF CAPITAL

16.1 If in respect of Shares subject to a Forfeitable Share Award the Nominee receives on behalf of a Participant any rights to acquire securities, the Nominee shall sell such rights nil paid to the extent necessary to take up the remaining rights.

- 16.2 In the event of any variation of the share capital of the Company, or in the event of the demerger of a substantial part of the Group's business, a special dividend or similar event affecting the value of Shares to a material extent (which shall not include the payment of any ordinary dividend):
- 16.2.1 the Board may make such adjustments to Conditional Awards and Options as it may determine to be appropriate; and
- 16.2.2 any proceeds from such an event received by a Nominee in respect of any Shares subject to a Forfeitable Share Award, whether in cash or securities, (including where the Nominee takes up rights pursuant to Rule 16.1) shall be held by the Nominee on the same terms as the Forfeitable Share Award to which they relate, and references to the Shares subject to a Forfeitable Share Award shall be read to include such proceeds.
- 16.3 For the avoidance of doubt Rule 16.2 shall not apply in respect of any Awards pursuant to which legal title to Shares has been transferred prior to the date of the relevant event (such that the recipient of such legal title shall participate in such event as a holder of Shares) including pursuant to the vesting of an Award under Rule 9.6 (*Demerger or special dividend*).

17. ADMINISTRATION

- 17.1 Any notice or other communication under or in connection with this Plan may be given by the Company (or its agents) to a Participant personally, by email or by post, or by a Participant to the Company or any Group Company either personally or by post to the Secretary of the Company. Items sent by post shall be pre-paid and shall be deemed to have been received 48 hours after posting. Items sent by email shall be deemed to have been received immediately.
- 17.2 A Participant shall not be entitled to:
- 17.2.1 receive copies of accounts or notices sent to holders of Shares;
- 17.2.2 subject to Rule 6.4 (*Voting rights on forfeitable Shares*) in respect of a Forfeitable Share Award, exercise voting rights; or
- 17.2.3 subject to Rule 6.5 (*Dividends rights on forfeitable Shares*) in respect of a Forfeitable Share Award, receive dividends, in respect of Shares subject to an Award legal title to which has not been transferred to the Participant.
- 17.3 Any discretion (including the power to make any determination) of the Board under or in connection with the Plan may be exercised by the Board in its absolute discretion.
- 17.4 Any exercise of discretion (including the making of any determination) by the Board under or in connection with the Plan shall be final and binding.
- 17.5 Any disputes regarding the interpretation of the Rules or the terms of any Award shall be determined by the Board (upon such advice as the Board determines to be necessary) and any decision in relation thereto shall be final and binding.

18. AMENDMENTS

- 18.1 Subject to Rules 18.2 and 18.4, the Board may at any time add to or alter the Plan or any Award made thereunder in any respect.
- 18.2 Subject to Rule 18.3, no addition or alteration to the advantage of present or future Participants relating to eligibility, the limits on participation, the overall limits on the issue of Shares or the transfer of Treasury Shares, the basis for determining a Participant's entitlement to, or the terms of, Shares or cash provided pursuant to the Plan and the provisions for adjustments on a variation of share capital shall be made without the prior approval by ordinary resolution of the shareholders of the Company in general meeting.
- 18.3 Rule 18.2 shall not apply to any alteration to or substitution of the Performance Condition or to any alteration or addition which is necessary or desirable in order to comply with or take account of the provisions of any proposed or existing legislation, law or other

regulatory requirements or to take advantage of any changes in legislation, law or other regulatory requirements, or to obtain or maintain favourable taxation, exchange control or regulatory treatment of any Group Company or any Participant or to make minor amendments to benefit the administration of the Plan.

- 18.4 No alteration or addition shall be made under Rule 18.1 which would abrogate or adversely affect the subsisting rights of a Participant unless it is made:
- 18.4.1 with the consent in writing of the Participant;
 - 18.4.2 with the consent in writing of such number of Participants as hold Awards under the Plan in relation to 75 per cent. of the Shares subject to all Awards under the Plan; or
 - 18.4.3 by a resolution at a meeting of Participants passed by not less than 75 per cent. of the Participants who attend and vote either in person or by proxy,
- and for the purpose of Rule 18.4.2 or 18.4.3 the Participants shall be treated as the holders of a separate class of share capital and the provisions of the Articles of Association of the Company relating to class meetings shall apply *mutatis mutandis*.
- 18.5 The Board may, in respect of Eligible Employees who are or who may become subject to taxation outside the United Kingdom on their remuneration, establish such plans or sub-plans based on the Plan but subject to such modifications as the Board determines to be necessary or desirable to take account of or to mitigate or to comply with relevant overseas taxation, securities or exchange control laws, provided that the terms of awards made under such plans or sub-plans are not overall more favourable than the terms of Awards made under the Plan and provided that awards made, and Shares issued, pursuant to such plans or sub-plans shall count towards the limits set out in Rules 2 (*Plan limits*) and 3.3 (*Individual limit*).

19. DATA PROTECTION

- 19.1 From time to time the personal data of the Participant will be collected, used, stored, transferred and otherwise processed for the purposes described in Rule 19.2 and 19.3. The legal grounds for this processing will (depending on the nature and purpose of any specific instance of processing) be one of: (i) such processing being necessary for the purposes of the legitimate interests of the Company and each other Group Company in incentivising their officers and employees and operating the Plan; (ii) such processing being necessary for the purposes of any relevant data controller in respect of such personal data complying with its legal obligations; and (iii) such processing being necessary for the performance of the contractual obligations arising under the Plan. The collection and processing of such personal data for such purposes is a contractual requirement of participation in the Plan.
- 19.2 The purposes for which personal data shall be processed as referred to in this Rule 19 shall be in order to allow the Company and any other relevant Group Companies to incentivise their officers and employees and to operate the Plan and to fulfil its or their obligations to the Participant under the Plan, and for other purposes relating to or which may become related to the Participant's office or employment, the operation of the Plan or the business of the Group or to comply with legal obligations. Such processing will principally be for, but will not be limited to, personnel, administrative, financial, regulatory or payroll purposes as well as for the purposes of introducing and administering the Plan.
- 19.3 The personal data to be processed as referred to in this Rule 19 may be disclosed or transferred to, and/or processed by:
- 19.3.1 any professional advisors of any Group Company, HM Revenue & Customs or any other revenue, regulatory or governmental authorities;
 - 19.3.2 a trustee of a Trust; any registrars, brokers, payroll provider or appointed in connection with any employee share or incentive plans operated by any Group Company; or any person appointed (whether by the Participant or any Group Company) to act as nominee on behalf of (or provide a similar service to) the Participant;

- 19.3.3 subject to appropriate confidentiality undertakings), any prospective purchasers of, and/or any person who obtains control of or acquires, the Company or the whole or part of the business of the Group; or
- 19.3.4 any Group Company and officers, employees or agents of such Group Company.
- 19.4 Further information in relation to the processing of personal data referred to in this Rule 19, including the details and identity of the data controller and of the Participant's rights in respect of such personal data, is available in the Employee Data Protection Policy (or otherwise on request to the Company Secretary).
- 19.5 To the extent that the processing of personal data of a Participant referred to in this Rule 19 is subject to the laws or regulations of any jurisdiction that is not an EU member state and under which the legal grounds for processing described in Rule 19.1 do not provide a sufficient legal basis under such other laws or regulations for the processing referred to in Rule 19.1 to 19.3, by such processing for the purposes of such other laws or regulations (but shall not be deemed to consent to such processing for the purposes of EU Regulation 2016/679).
- 19.6 In this Rule 19, "personal data" and "data controller" each have the meaning given in EU Regulation 2016/679 and "Employee Data Protection Policy" means such privacy policy or similar operated by any Group Company in relation to the processing of personal data as amended from time to time and as is applicable to the Participant.

20. GENERAL

- 20.1 In the event of any discrepancy between these Rules in English and (i) any copy of these Rules translated into any other language; or (ii) any communications, notices or materials issued in connection with this Plan, these Rules in English shall prevail.
- 20.2 The Plan shall terminate on the 10th anniversary of the approval of the Plan by the shareholders of the Company in general meeting, or at any earlier time by resolution of the Board or an ordinary resolution of the shareholders in general meeting. Such termination shall be without prejudice to the subsisting rights of Participants.
- 20.3 Save as otherwise provided under the Plan:
- 20.3.1 Shares issued and allotted pursuant to the Plan will rank *pari passu* in all respects with the Shares then in issue at the date of such allotment, except that they will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment; and
- 20.3.2 Shares to be transferred pursuant to the Plan will be transferred free of all liens, charges and encumbrances and together with all rights attaching thereto, except they will not rank for any rights attaching to Shares by reference to a record date preceding the date of transfer.
- 20.4 If and so long as the Shares are admitted to listing and/or for trading on any stock exchange or market, the Company shall apply for any Shares issued and allotted pursuant to the Plan to be so admitted as soon as practicable.
- 20.5 Any transfer of Shares under the Plan is subject to such consent, if any, of any authorities in any jurisdiction as may be required, and the Participant shall be responsible for complying with the requirements to obtain or obviate the necessity for such consents.
- 20.6 The terms of any individual's office or employment with any past or present Group Company, and the rights and obligations of the individual thereunder, shall not be affected by his participation in the Plan and the Plan shall not form part of any contract of employment between the individual and any such company.
- 20.7 An Eligible Employee shall have no right to receive an Award under the Plan and participation in the Plan and the grant of any Award is at the discretion of the Company.

- 20.8 Participation in the Plan by, or the grant of any Award under it to, a Participant in any year does not create any right to or expectation of participation in the Plan or the grant of any Award in any future year, even if the Participant has previously participated in the Plan (or any similar plan) over a long period of time and/or if participation in the Plan and/or an Award under it (or any similar plan) has been granted (including repeatedly) without the relevant Group Company specifically expressing the voluntary and discretionary nature at the time of each such participation or Award.
- 20.9 By participating in the Plan, the Participant waives all and any rights to compensation or damages in consequence of the termination of his office or employment with any past or present Group Company for any reason whatsoever, whether lawfully or otherwise, insofar as those rights arise or may arise from his ceasing to have rights under the Plan (including ceasing to be entitled to exercise any Option) as a result of such termination, or from the loss or diminution in value of such rights or entitlements, including by reason of the operation of the terms of the Plan, any determination by the Board pursuant to a discretion contained in the Plan or the provisions of any statute or law relating to taxation.
- 20.10 Benefits under the Plan shall not form part of a Participant's remuneration for any purpose and shall not be pensionable.
- 20.11 The invalidity or non-enforceability of any provision or Rule of the Plan shall not affect the validity or enforceability of the remaining provisions and Rules of the Plan which shall continue in full force and effect.
- 20.12 These Rules shall be governed by and construed in accordance with English Law. 20.13 The English courts shall have exclusive jurisdiction to determine any dispute which may arise out of, or in connection with, the Plan.

APPENDIX 1: OPERATION OF CLAW-BACKClaw-back prior to the transfer of Shares in respect of an Award (or “malus”)

1. Where the Board determines (pursuant to Rule 15.1 or 15.2 (*Claw-back events*)) that a Claw-back shall apply in respect of an Award prior to legal title to Shares having been transferred to the Participant pursuant to the Award (whether before or after vesting), the Claw-back shall be applied by the Board reducing the number of Shares in respect of which the Award may vest or, in the case of an Option, be exercised (or after vesting by reducing the number of Shares legal title to which may be transferred pursuant to the Award) by up to the number of Shares determined by the Board to be the excess number of Shares in respect of which the Award was granted and/or is outstanding (and the Award shall lapse to the extent so reduced, which may be in full).

Claw-back following the transfer of Shares in respect of an Award

2. Where the Board determines (pursuant to Rule 15.1 or 15.2 (*Claw-back events*)) that a Claw-back shall apply in respect of an Award following legal title to Shares having been transferred to the Participant pursuant to the Award (a “**Post-Transfer Claw-back**”), the Board shall determine:
 - a. the excess number of Shares in respect of which the Award vested (the “**Excess Shares**”); and
 - b. the aggregate Market Value of such Excess Shares (as determined by the Board) on the date on which the Award vested or, in the case of an Option, the date the Option was exercised (the “**Equivalent Value**”).
3. In the case of a Post-Transfer Claw-back:
 - a. any dividends received in respect of the Shares subject to a Forfeitable Share Award pursuant to Rule 6.5 (*Dividend rights on forfeitable Shares*); and/or
 - b. any cash payment made or additional Shares transferred pursuant to Rule 11 (*Dividend equivalent*) in respect of such Award shall be subject to the Claw-back to the extent that the Board determines that such cash payment or Shares relate to the Excess Shares.
4. A Post-Transfer Claw-back may be effected in such manner as may be determined by the Board, and notified to the Participant, including by any one or more of the following:
 - a. by reducing the number of Shares and/or amount of cash in respect of which an Outstanding Award vests or may vest (or has vested, but in respect of which no Shares have yet been transferred or cash payment made), whether before or after the assessment of performance conditions in respect of such Outstanding Award, by the number of Excess Shares and/or the Equivalent Value (and such Outstanding Award shall lapse to the extent so reduced);
 - b. by setting-off against any amounts payable by any Group Company to the Participant an amount up to the Equivalent Value (including from any bonus payment which may otherwise become payable to the Participant); and/or
 - c. by requiring the Participant to immediately transfer to the Company a number of Shares equal to the Excess Shares or a cash amount equal to the Equivalent Value (which shall be an immediately payable debt due to the Company), provided that the Board may reduce the number of Excess Shares or the amount of the Equivalent Value subject to the Claw-back in order to take account of any Tax Liability (as defined in Rule 13 (*Tax Liability*)) which arose on the Excess Shares (howsoever delivered to the Participant).
5. For the avoidance of doubt, nothing in Rule 15 (*Clawback*) or this Appendix shall in any way restrict a Participant from being able to transfer or otherwise deal in Shares acquired on vesting or exercise of an Award.
6. In paragraph 4 above:

“**Outstanding Award**” means any other Award under the Plan, any award or option under any other Employees’ Share Scheme operated from time to time by any Group Company (other than any award or options granted under any arrangement which satisfies the

provisions of Schedules 2 or 3, or (unless the terms of such arrangement state that shares acquired thereunder are subject to claw-back) 4 or 5, of the Income Tax (Earnings and Pensions) Act 2003), or any bonus award under any bonus scheme operated from time to time by any Group Company, in each case which is either held by the Participant at the time of a determination that a Claw-back shall be applied or which are granted to the Participant following such a determination; and

“vests” shall include shares or cash subject to an award becoming due to be transferred or paid, and in the case of an option, the option becoming exercisable.

APPENDIX 2: AWARDS GRANTED TO U.S. TAXPAYERS**1. INTERPRETATION**

- 1.1 This Appendix shall form part of the Rules of the Plan.
- 1.2 In this Appendix a reference to a **“Paragraph”** is to a paragraph of this Appendix.
- 1.3 Capitalized terms used in this Appendix that are not otherwise defined in this Appendix shall have the meanings set forth in the Plan.

2. APPLICATION

- 2.1 The provisions of this Appendix shall apply to a Conditional Award or an Option that is held by any Participant while he or she is a U.S. Taxpayer. For the avoidance of doubt, any references to an Award in this Appendix shall be to a Conditional Award or an Option (and not to a Forfeitable Share Award).
- 2.2 To the extent that any provision of Paragraphs 4 to 10 is inconsistent with any Rule of the Plan, such provision of this Appendix shall take precedence. Paragraph 3 is included to aid interpretation.

3. PERFORMANCE AND SERVICE CONDITION*Rule 5 – Performance Condition*

- 3.1 All Awards to which this Appendix applies shall be subject to a Performance Condition, each element of which shall be assessed over the Performance Period (or, if applicable the period described in Rule 7.4).

Rule 8 – Cessation of Office or Employment

- 3.2 All Awards to which this Appendix applies are subject to a service condition which applies until the Award’s Normal Vesting Date or any earlier vesting date.

Paragraph 5 – Awards where the “wait and see approach” shall apply (including all Awards subject to an extended vesting period); vesting date

- 3.3 Notwithstanding the date on which a Conditional Award that is subject to Paragraph 5 vests, the Shares in respect of which such Award vests shall not be transferred to the U.S. Taxpayer until the Normal Vesting Date (subject to any earlier date specified in Paragraph 5.5). Shares in respect of an Option that is subject to Paragraph 5 shall be deemed to be exercised on the date on which such Option vests pursuant to the Plan, as amended by this Appendix.

Rule 8 and Paragraph 6 – Cessation of Office or Employment; Award without extended vesting period and where the Committee does not determine that the “wait and see” approach shall apply

- 3.4 An Award that is subject to Paragraph 6 will be subject to a service condition until the date on which it vests, and (a) Shares in respect of a Conditional Award will be transferred to the U.S. Taxpayer no later than the 15th day of the third month following the end of the calendar year in which the Award is no longer subject to a substantial risk of forfeiture (within the meaning of Code § 409A) and (b) Shares in respect of an Option shall be deemed to be exercised on the date on which such Option vests.

Rules 7, 8 and 9 – Vesting, Cessation of Office or Employment and Corporate Actions

- 3.5 Where an Award vests prior to the Normal Vesting Date, the extent of vesting shall be determined by such applicable Rule.

Lapse

- 3.6 Awards to which this Appendix applies shall lapse at any time specified in the Rules or this Appendix.

4. APPLICATION OF PARAGRAPH 5 AND 6

An Award to which this Appendix applies shall be subject to Paragraph 5 or 6, but shall only be capable of being subject to one of Paragraph 5 or Paragraph 6, and which such Paragraph the Award is subject to shall be determined without any involvement of the U.S. Taxpayer and shall not be capable of change for any reason.

5. AWARDS (I) WHERE THE “WAIT AND SEE” APPROACH SHALL APPLY (INCLUDING ALL AWARDS SUBJECT TO AN EXTENDED VESTING PERIOD), (II) DESCRIBED IN PARAGRAPHS 3.1 AND 3.2 OF ADDENDUM I TO THE PLAN OR (III) THAT OTHERWISE ARE NOT EXEMPT FROM CODE § 409A AS A SHORT-TERM DEFERRAL

- 5.1 An Award shall be subject to this Paragraph 5 if:
- 5.1.1 the Normal Vesting Date of an Award is more than one year after the end of the Performance Period;
 - 5.1.2 on the Grant Date the U.S. Taxpayer is a director of the Company or a member of the Management Board of the Company (unless determined otherwise by the Committee prior to the Grant Date);
 - 5.1.3 such Award is otherwise not exempt from Code § 409A by reason of complying with the short-term deferral exemption from Code § 409A; and/or
 - 5.1.4 it is so determined by the Committee prior to the Grant Date (including pursuant to Paragraph 3.2 of Addendum I to the Plan).
- 5.2 An Award which is subject to this Paragraph 5 shall vest on the earliest of:
- 5.2.1 the Normal Vesting Date;
 - 5.2.2 any date on which the Award vests pursuant to Rule 9 (subject to Paragraph 5.3);
 - 5.2.3 the U.S. Taxpayer’s death; or
 - 5.2.4 any earlier vesting date determined by the Board pursuant to Rule 7.7 or Rule 8.2 (including pursuant to Paragraph 3.1 of Addendum I to the Plan).
- 5.3 An Award subject to this Paragraph 5:
- 5.3.1 may only vest under Rule 9 if the event falling within Rule 9 which would give rise to such vesting constitutes a “change in control event” as described in U.S. Treasury Regulations or other guidance issued pursuant to Code § 409A; and
 - 5.3.2 to the extent it does not vest by such time, shall lapse on any date on which an Option would lapse pursuant to Rule 9.2 to 9.6.
- 5.4 An Award subject to this Paragraph 5 that is an Option shall be deemed to be automatically exercised to the fullest extent permitted by the Rules on the date on which it vests pursuant to the Plan, as amended by this Appendix, and such Shares shall become due to be transferred to the U.S. Taxpayer within 60 days (90 days if such Option vests pursuant to Paragraph 5.2.3) of such date of automatic exercise.
- 5.5 Any Shares in respect of which a Conditional Award which is subject to this Paragraph 5 vests shall become due to be transferred to the U.S. Taxpayer within 60 days (90 days in the case of Paragraph 5.5.2(ii) below) of the earlier of:

- 5.5.1 the Normal Vesting Date; or
- 5.5.2 if applicable, (i) the date set forth in Paragraph 5.2.2; (ii) the date set forth in Paragraph 5.2.3 or (iii) any applicable date described in Paragraph 5.2.4,
- and shall be transferred within such period (and, for the avoidance of doubt, not prior to such period).

6. AWARDS WITHOUT AN EXTENDED VESTING PERIOD AND WHERE THE “WAIT AND SEE” APPROACH DOES NOT APPLY AND THAT ARE OTHERWISE EXEMPT FROM CODE § 409A AS A SHORT-TERM DEFERRAL

- 6.1 An Award shall be subject to this Paragraph 6 if the Award is not subject to Paragraph 5.
- 6.2 An Award which is subject to this Paragraph 6 shall, subject to Rule 7.6, vest on the earliest of:
- 6.2.1 the Normal Vesting Date;
- 6.2.2 any date on which the Award vests pursuant to Rule 9;
- 6.2.3 the Participant’s death;
- 6.2.4 any earlier vesting date determined by the Board pursuant to Rule 7.7; and
- 6.2.5 the date on which the U.S. Taxpayer ceases to hold office or employment with any Group Company for any of the reasons specified in Rule 8.2 (for the avoidance of doubt subject to Rule 8.8).
- 6.3 An Award subject to this Paragraph 6 that is an Option shall be deemed to be automatically exercised to the fullest extent permitted by the Rules on the date on which it vests pursuant to this Plan, as amended by this Appendix, and such Shares shall become due to be transferred to the U.S. Taxpayer no later than the 15th day of March in the calendar year immediately following the calendar year in which the Award is no longer subject to a substantial risk of forfeiture (within the meaning of Code § 409A).
- 6.4 Any Shares in respect of which a Conditional Award which is subject to this Paragraph 6 vests shall be transferred to the U.S. Taxpayer no later than the 15th day of March in the calendar year immediately following the calendar year in which the Award is no longer subject to a substantial risk of forfeiture (within the meaning of Code § 409A).
- 6.5 Rule 8.3.1 shall not apply to an Award which is subject to this Paragraph 6.

7. DIVIDEND EQUIVALENTS

Any payment to which a U.S. Taxpayer may become entitled under Rule 11 with respect to an Award shall be paid to the U.S. Taxpayer at the same time as the transfer of Shares under Paragraph 5.4, 5.5, 6.3 or 6.4, as applicable.

8. CASH ALTERNATIVE

- 8.1 If Shares cannot be delivered in accordance with Paragraph 5.4, 5.5, 6.3 or 6.4, as applicable, because of a Dealing Restriction, such Award shall instead be satisfied by the payment of a cash equivalent amount pursuant to Rule 12 (as such Rule is amended by Paragraph 8.2).
- 8.2 Any cash payment to which a U.S. Taxpayer may become entitled under Rule 12 with respect to an Award shall be paid to the U.S. Taxpayer at the same time as the transfer of Shares would have occurred under Paragraph 5.4, 5.5, 6.3 or 6.4, as applicable.

9. CODE § 409A EXEMPTION AND COMPLIANCE

- 9.1 Awards subject to Paragraph 6 are intended to be exempt from Code § 409A to the maximum extent possible under the exemption for “short-term deferrals” specified in the Treasury Regulations, and the provisions of this Appendix and the Plan, as it applies to

such Award, shall be construed, interpreted and applied accordingly. Without limiting the foregoing, the Board shall not exercise any discretion that is otherwise afforded to it under the Plan in a manner that is inconsistent with such treatment. For the avoidance of doubt, any Award subject to Paragraph 6 shall, in all events, be paid within the short-term deferral period specified in Treasury Regulation § 1.409A-1(b)(4).

- 9.2 To the extent that any Award to which this Appendix applies is subject to Code § 409A, the provisions of this Appendix and the Plan, as it applies to such Award, shall be construed, interpreted and applied in such a way as to comply with the applicable provisions of Code § 409A to the maximum extent possible. If an Award is subject to Code § 409A, then: (i) any payment or transfer of Shares on account of a change in control shall be made only if the change in control qualifies as a “change in control event,” as defined for purposes of Code § 409A; (ii) any provision in the Plan that is inconsistent with the requirements of Code § 409A shall not apply to such Award; (iii) the Board shall exercise discretion otherwise afforded to it under the Plan (including under Appendix 1 to the Plan) only to the extent that such exercise of discretion is consistent with the requirements of Code § 409A; and (iv) the U.S. Taxpayer shall not have the right to designate any payment date with respect to such Award.
- 9.3 In the event that a U.S. Taxpayer is deemed to be a “specified employee” on the date of his or her “separation from service,” as defined for purposes of Code § 409A (other than by reason of death), determined pursuant to identification methodology adopted by a Group Company in compliance with Code § 409A, and if any portion of the Shares or other payments to be received by such U.S. Taxpayer in respect of an Award upon separation from service would constitute a “deferral of compensation” subject to Code § 409A, then to the extent necessary to comply with Code § 409A, Shares or amounts that would otherwise be delivered or payable pursuant to this Plan, as amended by this Appendix, during the six (6) month period immediately following the date of such U.S. Taxpayer’s separation from service shall instead be delivered or paid either (i) during the period commencing on the date that is six (6) months and one (1) day following the date of such U.S. Taxpayer’s separation from service and ending fifteen (15) days following the first business day of the seventh month after the date of such separation from service, provided that the U.S. Taxpayer shall not have the right to designate the delivery or payment date, or (ii) if earlier, as soon as practicable (and in any event within ninety (90) days) after the U.S. Taxpayer’s death.
- 9.4 Each Award hereunder shall constitute a separate payment within the meaning of Treasury Regulation § 1.409A-2(b)(2).

10. COOPERATION

In the event that the terms of this Plan would subject any U.S. Taxpayer to taxes or penalties under Code § 409A (“**409A Penalties**”), the Committee, the Company and such U.S. Taxpayer shall cooperate diligently to amend the terms of the Plan and the U.S. Taxpayer’s Award agreement to avoid such 409A Penalties, to the extent possible, provided that in no event shall any Group Company be responsible for any 409A Penalties that arise in connection with any amounts payable in respect of any Award granted under this Plan.

11. SETTLEMENT

No Award subject to paragraph 5 of this Appendix shall be settled with Shares from a trust.

ADDENDUM I: AWARDS GRANTED TO RAI PARTICIPANTS (PRIOR TO 2020)**1. APPLICATION**

- 1.1 This Addendum applies to Participants who are employees of Reynolds American Inc. or a subsidiary of Reynolds American Inc. (collectively, “RAI” and such Participants, “RAI Participants”).
- 1.2 This Addendum sets out certain additional terms which apply in respect of Awards granted under the Plan to RAI Participants prior to 2020.
- 1.3 References in this Addendum to a “Rule” is to the Rule of the Plan. Capitalized terms used in this Addendum shall, save where otherwise defined herein, have the meaning given in the Rules. To the extent that any provision of this Addendum is inconsistent with any Rule of the Plan, such provision of this Addendum shall take precedence.

2. MODIFICATION

- 2.1 The Board may at any time, and without notice to any person, add or alter or discontinue the terms of this Addendum in any respect without prior notice to any Participant.

3. TERMS**Retirement**

- 3.1 Pursuant to Rule 8.2.5 (*Reasons for cessation where Award remain capable of vesting*) it has been determined that Rule 8.1 (*Cessation where Awards lapse*) shall not apply in respect of a RAI Participant who ceases to hold office or employment with any Group Company (within the meaning of Rule 8.8 (*Meaning of cessation of office or employment*)) in circumstances where the RAI Participant meets the criteria set out below (provided that this provision shall not apply where, in the opinion of the Board, the RAI Participant has committed an act or omission which justifies, or in the opinion of the Board would have justified, summary dismissal of service or notice of cessation of employment on the grounds of misconduct). The criteria referred to are: a RAI Participant’s voluntary termination of his or her employment with RAI (i) on or after his or her 65th birthday, (ii) on or after his or her 55th birthday with 10 or more years of service with RAI, or (iii) on or after his or her 50th birthday with 20 or more years of service with RAI. RAI shall establish such policies, procedures, rules and guidelines as it determines to be appropriate to administer the preceding sentence, including the form and timing of the RAI Participant’s notice of the RAI Participant’s intent to retire.
- 3.2 Notwithstanding anything in the Plan or Appendix 2 to the Plan to the contrary, a Conditional Award or an Option granted to a RAI Participant who is on the Grant Date, or who may become during the applicable Performance Period, eligible for the application of the preceding paragraph, shall be subject to the terms of Paragraph 5 of Appendix 2 to the Plan.

Disability

- 3.3 With respect to RAI Participants, the reference to “disability” in Rule 8.2 (*Reasons for cessation where Awards remain capable of vesting*) shall mean that the RAI Participant has become eligible for and is in receipt of benefits under RAI’s Long-Term Disability Plan. RAI shall establish such policies, procedures, rules and guidelines as it determines to be appropriate to administer the preceding sentence.

4. SETTLEMENT

- 4.1 Awards granted to RAI Participants may, at the discretion of the Board, be satisfied by the transfer of British American Tobacco p.l.c. American Depositary Shares, and references in the Plan (including any Appendix, Schedule or Addendum thereto) to “Shares” shall be read accordingly.
- 4.2 No Award subject to this Addendum shall be settled with Shares from a trust.

ADDENDUM II: AWARDS GRANTED TO RAI PARTICIPANTS (FROM 2020)**1. APPLICATION**

- 1.1 This Addendum applies to Participants who are employees of Reynolds American Inc. or a subsidiary of Reynolds American Inc. (collectively, “RAI” and such Participants, “RAI Participants”).
- 1.2 This Addendum sets out certain additional terms which currently apply in respect of Awards granted under the Plan to RAI Participants from 2020.
- 1.3 References in this Addendum to a “Rule” is to the Rule of the Plan. Capitalized terms used in this Addendum shall, save where otherwise defined herein, have the meaning given in the Rules. To the extent that any provision of this Addendum is inconsistent with any Rule of the Plan, such provision of this Addendum shall take precedence.

2. MODIFICATION

- 2.1 The Board may at any time, and without notice to any person, add or alter or discontinue the terms of this Addendum in any respect without prior notice to any Participant.

3. TERMS**Disability**

- 3.1 With respect to RAI Participants, the reference to “disability” in Rule 8.2 (*Reasons for cessation where Awards remain capable of vesting*) shall mean that the RAI Participant has become eligible for and is in receipt of benefits under RAI’s Long-Term Disability Plan. RAI shall establish such policies, procedures, rules and guidelines as it determines to be appropriate to administer the preceding sentence.

4. SETTLEMENT

- 4.1 Awards granted to RAI Participants may, at the discretion of the Board, be satisfied by the transfer of British American Tobacco p.l.c. American Depositary Shares, and references in the Plan (including any Appendix, Schedule or Addendum thereto) to “Shares” shall be read accordingly.
- 4.2 No Award subject to this Addendum shall be settled with Shares from a trust.

SCHEDULE 1: PERFORMANCE CONDITIONS

SCHEDULE 1A

**PERFORMANCE CONDITION APPLICABLE TO AWARDS GRANTED
IN 2016, 2017 2018, 2019 and 2020**

TO PARTICIPANTS OTHER THAN EXECUTIVE DIRECTORS

1. Subject to the Rules, the extent to which the Shares in respect of which an Award is granted (the “**Award Shares**”) may vest shall be determined:
 - a. as to 40% of the Award Shares, by reference to the performance target based on Earnings per Share specified in paragraph 3 below is satisfied
 - b. as to 20% of the Award Shares, by reference to the performance target based on Total Shareholder Return specified in paragraph 4 below;
 - c. as to 20% of the Award Shares, by reference to the performance target based on the Operating Cash Flow Conversion Ratio specified in paragraph 5 below;
 - d. as to 20% of the Award Shares, by reference to the performance target based on Net Turnover specified in paragraph 6 below; and

2. The Performance Period for
 - a. Awards granted in 2016 shall commence on 1 January 2016 and end on 31 December 2018;
 - b. Awards granted in 2017 shall commence on 1 January 2017 and end on 31 December 2019;
 - c. Awards granted in 2018 shall commence on 1 January 2018 and end on 31 December 2020;
 - d. Awards granted in 2019 shall commence on 1 January 2019 and end on 31 December 2021; and
 - e. Awards granted in 2020 shall commence on 1 January 2020 and end on 31 December 2022.

3. **Earnings per Share**
 - a. The performance target in this paragraph 3 (the “**EPS Target**”) shall consist of two equal, independent elements such that the number of Award Shares which vest pursuant to this EPS Target shall be the aggregate of the number of Award Shares which vest pursuant to each element.
 - b. Each element of the EPS Target operates by calculating the compound annual growth in adjusted diluted earnings per share (unless the Board determines that an alternative definition of earnings per share is more appropriate) for the Company, in the case of the first element measured at current rates of exchange, and in the case of the second element measured at constant rates of exchange.

EPS Target: current rates of exchange

- c. The percentage of the Award Shares which may vest pursuant to this element of the EPS Target depends upon the compound annual growth in adjusted diluted earnings per share over the Performance Period, measured at current rates of exchange, as follows:

Compound annual growth rate in adjusted diluted EPS (measured at current rates of exchange) over the Performance Period	% of the Award Shares which vest pursuant to this element of the EPS Target
10% pa or greater	20%
Between 10% pa and 5% pa	Pro-rata between 20% and 4%
5% pa	4%
Less than 5% pa	0%

EPS Target: constant rates of exchange

- d. The percentage of the Award Shares which may vest pursuant to this element of the EPS Target depends upon the compound annual growth in adjusted diluted earnings per share over the Performance Period, measured at constant rates of exchange, as follows:

Compound annual growth rate in adjusted diluted EPS (measured at constant rates of exchange) over the Performance Period	% of the Award Shares which vest pursuant to this element of the EPS Target
10% pa or greater	20%
Between 10% pa and 5% pa	Pro-rata between 20% and 4%
5% pa	4%
Less than 5% pa	0%

- e. For the purposes of paragraphs 3.c and 3.d above, compound annual growth in adjusted diluted earnings per share over the Performance Period (expressed as a percentage) is calculated as follows:

$$\left[\left\{ \left(\frac{E^3}{E^0} \right)^{1/3} \right\} - 1 \right] \times 100$$

Where:

E^0 = adjusted diluted earnings per share of the Company in the Financial Year immediately preceding the Financial Year in which the Performance Period begins (being “Year 0”); and

E^3 = adjusted diluted earnings per share of the Company in the final Financial Year of the Performance Period (being “Year 3”), measured at:

- i. current rates of exchange for the purposes of paragraph 3.c; and
- ii. constant rates of exchange for the purposes of paragraph 3.d, for which purpose the value of E^0 and E^3 shall be taken as index values, with the value for E^0 being the base index value (representing adjusted diluted earnings per share in Year 0), with the purpose of such index being to reflect changes over the Performance Period in adjusted diluted earnings per share of the Company as measured on a constant currency basis, and E^3 being taken as the value of such index for Year 3,

and in either case provided that if the Board determines that a measurement of earnings per share other than adjusted diluted earnings per share is more appropriate the calculation shall be on that other basis and this paragraph 3 shall apply accordingly).

4. **TSR Target**

- a. The percentage of the Award Shares which may vest pursuant to the performance target in this paragraph 4 (the “**TSR Target**”) depends upon the Company’s Total Shareholder Return over the Performance Period relative to the Total Shareholder Return of the Comparator Group:

Ranked position of the Company’s TSR against the relevant comparator companies	% of the Award Shares which vest pursuant to this TSR Target
Upper quartile or above	20%
Between upper quartile and median	Pro-rata between 20% and 4%
Median	4%
Below median	0%

- b. For the purpose of this TSR Target:

- i. The Comparator Group shall comprise the following companies:

[Altria Group] ¹	Heineken	Nestlé
Anheuser-Busch InBev	Imperial Brands	PepsiCo Inc
Campbell Soup Company	Japan Tobacco	Pernod Ricard
Carlsberg A/S	Johnson & Johnson	Philip Morris International
Coca-Cola	Kellogg	Procter & Gamble
Colgate-Palmolive	Kimberley-Clark	Reckitt Benckiser
Danone	LVMH	[SABMiller] ²
Diageo	Mondelēz International	Unilever

- ii. The Total Shareholder Return of the Company and each of the relevant comparator companies over the relevant Performance Period (expressed as a percentage) shall be computed as follows:

$$\left\{ \left(\frac{TSR^3}{TSR^0} \right)^{1/3} \right\} - 1$$

¹ Included only for Awards granted from 2019

² Included only for Awards granted in 2016

Where:

TSR^0 = the average return index of the relevant companies as calculated by Datastream (or other such data provider as determined by the Board) (excluding Saturdays and Sundays) in the three months preceding the beginning of the Performance Period; and

TSR^3 = the average return index (calculated in the same manner as for TSR^0) in the 3 months preceding the end of the Performance Period.

- iii. Unless the Board determines otherwise, the Total Shareholder Return for the Company and each of the relevant comparator companies shall be calculated on a local currency basis.
- iv. The Company and the companies in the Comparator Group shall be ranked by the resulting Total Shareholder Return figures, with the company with the highest figure having the highest ranking, and median and upper quartile performance shall be determined on such basis as the Board, acting reasonably, may specify from time to time.

5. **Operating Cash Flow Conversion Ratio Target**

- a. The percentage of the Award Shares which may vest pursuant to the performance target in this paragraph 5 (the “**Operating Cash Flow Conversion Ratio Target**”) depends upon the Company’s average Operating Cash Flow as a percentage of Adjusted Operating Profit over the Performance Period:

Average Operating Cash Flow Conversion Ratio over the Performance Period	% of the Award Shares which vest pursuant to the Operating Cash Flow Conversion Ratio Target
95% or above	20%
Between 95% and 85%	Pro-rata between 20% and 4%
85%	4%
Less than 85% of Adjusted Operating Profit	0%

- b. For the purpose of this Operating Cash Flow Conversion Ratio Target:
 - i. the “**Average Operating Cash Flow Conversion Ratio**” is the aggregate of the Operating Cash Flow Conversion Ratios for each Financial Year in the Performance Period, divided by the number of Financial Years in the Performance Period; and
 - ii. the “**Operating Cash Flow Conversion Ratio**” for a Financial Year (expressed as a percentage) is calculated as follows:

$$\left(\frac{\text{Operating Cash Flow}}{\text{Adjusted Operating Profit}} \right) \times 100$$

Where:

“**Operating Cash Flow**” in respect of a Financial Year is the adjusted profit from operations (excluding associates) plus depreciation, amortisation and impairment, plus other non-cash items, less the increase / (decrease) in working capital, less net capital expenditure, in each case for such Financial Year. All of these items are excluding costs and movements relating to restructuring and integration in the Financial Year; and

“Adjusted Operating Profit” in respect of a Financial Year is derived by excluding the adjusting items from the profit from operations for such Financial Year. Adjusting items include restructuring and integration costs, amortisation and impairment of trademarks and similar intangibles, a gain on deemed partial disposal of a trademark and a payment and release of a provision relating to non-tobacco litigation.

For the purpose of this Operating Cash Flow Conversion Ratio Target, Operating Cash Flow and Adjusted Operating Profit are calculated at current rates of exchange, unless the Board determines otherwise.

6. **Net Turnover Target**

- a. The performance target in this paragraph 6 (the “NTO Target”) operates by calculating the compound annual growth in the Net Turnover of the Company, measured at constant rates of exchange on an organic basis.
- b. The percentage of the Award Shares which may vest pursuant to this NTO Target depends upon the compound annual growth in Net Turnover over the Performance Period as follows:

Compound annual growth of Net Turnover over the Performance Period	% of the Award Shares which vest pursuant to this NTO Target
5% pa or greater	20%
Between 5% pa and 3% pa	Pro-rata between 20% and 4%
3% pa	4%
Less than 3% pa	0%

provided that, notwithstanding above, but subject to the Rules, no Award Shares shall vest pursuant to this NTO Target unless the three-year constant currency compound annual growth rate of underlying adjusted operating profit exceeds the compound annual growth rate of the threshold performance level for underlying adjusted operating profit, as defined annually in the International Executive Incentive Scheme (as approved by the Board).

- c. For the purposes of this NTO Target, compound annual growth of Net Turnover (expressed as a percentage) is calculated as follows:

$$\left[\left\{ \left(\frac{NTO^3}{NTO^0} \right)^{1/3} \right\} - 1 \right] \times 100$$

Where:

NTO^0 = Net Turnover in the Financial Year immediately preceding the Financial Year in which the Performance Period begins (being “Year 0”); and

NTO^3 = Net Turnover in the final Financial Year of the Performance Period (being “Year 3”),

measured at constant rates of exchange, for which purpose the value of NTO^0 and NTO^3 shall be taken as index values, with the value for NTO^0 being the base index value (representing Net Turnover in Year 0), with the purpose of such index being to reflect changes over the Performance Period in Net Turnover of the Company as measured on a constant currency basis, and NTO^3 being taken as the value of such

index for Year 3, and where the values for *NTO*³ and/or *NTO*⁰ shall be adjusted in such manner as is determined by the Board to exclude any Net Turnover attributable to any business acquired or disposed of during the Performance Period or otherwise with the intention that the growth in Net Turnover is assessed by reference to organic growth.

7. **Exchange rates**

In this Schedule:

“**current rates of exchange**” means exchange rates applied for each year relevant to a given calculation based on the average exchange rate in that year; and

“**constant rates of exchange**” means exchange rates applied based on a re-translation, at prior year exchange rates, of the current year information, in order that the same exchange rates are applied for each year relevant to a given calculation.

8. **Adjustment to vesting outcome**

- a. After the performance targets in paragraphs 3 to 6 have been assessed, the Board may make such adjustment to the percentage of Shares of the Award Shares that vest pursuant to one or more of such performance targets to ensure a fair result for both the Participants and shareholders.
- b. An adjustment pursuant to this paragraph 8 may be either positive (but, for the avoidance of doubt, not so that the percentage of the Award Shares which vests pursuant to any one of the performance targets in paragraphs 3 to 6 exceeds the maximum percentage of the Award Shares which may vest pursuant to that performance target, as set out in paragraph 1) or negative (including reducing the percentage of Awards Shares which vest to nil). For the avoidance of doubt, where the Board makes any adjustment pursuant to this paragraph 8 the percentage of Award Shares to be transferred shall be the percentage as adjusted by the Board notwithstanding the outcome of the performance targets as set out in paragraphs 3 to 6.
- c. For the avoidance of doubt, vesting outcomes are subject to any forfeiture or reduction of Awards pursuant to Rule 15 (*Claw-back*).

9. **Adjustments to performance targets**

- a. In the event of:
 - i. a change to the accounting standards of the Company or similar event;
 - ii. any events which affect any of the companies comprised in the Comparator Group (such as a merger or de-listing);
 - iii. any variation of capital of the Company or a demerger, delisting, special dividend, rights issue or other event which may, in the opinion of the Board, affect the current or future value of the Company’s shares; or
 - iv. any other similar event the Board considers relevant which may unduly affect the calculation of the performance targets set out in paragraphs 3 to 6,

the Board may make such adjustments to the terms of this Performance Condition as it determines appropriate to reflect such event with the intention of ensuring that this Performance Condition continues to assess the performance of the Company on a consistent basis over the Performance Period.

- b. This Performance Condition may be amended in accordance with Rule 5.4 of the Plan.

General

10. References in this Schedule 1A to a paragraph are to a paragraph of this Schedule 1A.

SCHEDULE 1B

**PERFORMANCE CONDITION APPLICABLE TO AWARDS GRANTED
IN 2016, 2017, 2018, 2019 and 2020
TO EXECUTIVE DIRECTORS OF THE COMPANY**

1. Subject to the Rules, the extent to which the Shares in respect of which an Award is granted (the “**Award Shares**”) may vest shall be determined:
 - a. as to 40% of the Award Shares, by reference to the performance target based on Earnings per Share specified in paragraph 3 below is satisfied
 - b. as to 20% of the Award Shares, by reference to the performance target based on Total Shareholder Return specified in paragraph 4 below;
 - c. as to 20% of the Award Shares, by reference to the performance target based on the Operating Cash Flow Conversion Ratio specified in paragraph 5 below;
 - d. as to 20% of the Award Shares, by reference to the performance target based on Net Turnover specified in paragraph 6 below; and

2. The Performance Period for:
 - a. Awards granted in 2016 shall commence on 1 January 2016 and end on 31 December 2018;
 - b. Awards granted in 2017 shall commence on 1 January 2017 and end on 31 December 2019;
 - c. Awards granted in 2018 shall commence on 1 January 2018 and end on 31 December 2020;
 - d. Awards granted in 2019 shall commence on 1 January 2019 and end on 31 December 2021; and
 - e. Awards granted in 2020 shall commence on 1 January 2020 and end on 31 December 2022.

3. **Earnings per Share**
 - a. The performance target in this paragraph 3 (the “**EPS Target**”) shall consist of two equal, independent elements such that the number of Award Shares which vest pursuant to this EPS Target shall be the aggregate of the number of Award Shares which vest pursuant to each element.
 - b. Each element of the EPS Target operates by calculating the compound annual growth in adjusted diluted earnings per share for the Company, in the case of the first element measured at current rates of exchange, and in the case of the second element measured at constant rates of exchange.

EPS Target: current rates of exchange

- c. The percentage of the Award Shares which may vest pursuant to this element of the EPS Target depends upon the compound annual growth in adjusted diluted earnings per share over the Performance Period, measured at current rates of exchange, as follows:

Compound annual growth rate in adjusted diluted EPS (measured at current rates of exchange) over the Performance Period	% of the Award Shares which vest pursuant to this element of the EPS Target
10% pa or greater	20%
Between 10% pa and 5% pa	Pro-rata between 20% and 3%
5% pa	3%
Less than 5% pa	0%

EPS Target: constant rates of exchange

- d. The percentage of the Award Shares which may vest pursuant to this element of the EPS Target depends upon the compound annual growth in adjusted diluted earnings per share over the Performance Period, measured at constant rates of exchange, as follows:

Compound annual growth rate in adjusted diluted EPS (measured at constant rates of exchange) over the Performance Period	% of the Award Shares which vest pursuant to this element of the EPS Target
10% pa or greater	20%
Between 10% pa and 5% pa	Pro-rata between 20% and 3%
5% pa	3%
Less than 5% pa	0%

- e. For the purposes of paragraphs 3.c and 3.d above, compound annual growth in adjusted diluted earnings per share over the Performance Period (expressed as a percentage) is calculated as follows:

$$\left[\left\{ \left(\frac{E^3}{E^0} \right)^{1/3} \right\} - 1 \right] \times 100$$

Where:

E^0 = adjusted diluted earnings per share of the Company in the Financial Year immediately preceding the Financial Year in which the Performance Period begins (being “Year 0”); and

E^3 = adjusted diluted earnings per share of the Company in the final Financial Year of the Performance Period (being “Year 3”), measured at:

- i. current rates of exchange for the purposes of paragraph 3.c; and
- ii. constant rates of exchange for the purposes of paragraph 3.d, for which purpose the value of E^0 and E^3 shall be taken as index values, with the value for E^0 being the base index value (representing adjusted diluted earnings per share in Year 0), with the purpose of such index being to reflect changes over the Performance Period in adjusted diluted earnings per share of the Company as measured on a constant currency basis, and E^3 being taken as the value of such index for Year 3.

4. **TSR Target**

- a. The percentage of the Award Shares which may vest pursuant to the performance target in this paragraph 4 (the “**TSR Target**”) depends upon the Company’s Total Shareholder Return over the Performance Period relative to the Total Shareholder Return of the Comparator Group:

Ranked position of the Company’s TSR against the relevant comparator companies	% of the Award Shares which vest pursuant to this TSR Target
Upper quartile or above	20%
Between upper quartile and median	Pro-rata between 20% and 3%
Median	3%
Below median	0%

- b. For the purpose of this TSR Target:

- i. The Comparator Group shall comprise the following companies:

[Altria Group] ³	Heineken	Nestlé
Anheuser-Busch InBev	Imperial Brands	PepsiCo Inc
Campbell Soup Company	Japan Tobacco	Pernod Ricard
Carlsberg A/S	Johnson & Johnson	Philip Morris International
Coca-Cola	Kellogg	Procter & Gamble
Colgate-Palmolive	Kimberley-Clark	Reckitt Benckiser
Danone	LVMH	[SABMiller] ⁴
Diageo	Mondelēz International	Unilever

- ii. The Total Shareholder Return of the Company and each of the relevant comparator companies over the relevant Performance Period (expressed as a percentage) shall be computed as follows:

$$\left\{ \left(\frac{TSR^3}{TSR^0} \right)^{1/3} \right\} - 1$$

Where:

TSR^0 = the average return index of the relevant companies as calculated by Datastream (or other such data provider as determined by the Board) (excluding Saturdays and Sundays) in the three months preceding the beginning of the Performance Period; and

³ Included only for Awards granted from 2019

⁴ Included only for Awards granted in 2016

TSR^3 = the average return index (calculated in the same manner as for TSR^0) in the 3 months preceding the end of the Performance Period.

- iii. The Total Shareholder Return for the Company and each of the relevant comparator companies shall be calculated on a local currency basis.
- iv. The Company and the companies in the Comparator Group shall be ranked by the resulting Total Shareholder Return figures, with the company with the highest figure having the highest ranking, and median and upper quartile performance shall be determined on such basis as the Board, acting reasonably, may specify from time to time.

5. **Operating Cash Flow Conversion Ratio Target**

- a. The percentage of the Award Shares which may vest pursuant to the performance target in this paragraph 5 (the “**Operating Cash Flow Conversion Ratio Target**”) depends upon the Company’s average Operating Cash Flow as a percentage of Adjusted Operating Profit over the Performance Period:

Average Operating Cash Flow Conversion Ratio over the Performance Period	% of the Award Shares which vest pursuant to the Operating Cash Flow Conversion Ratio Target
95% or above	20%
Between 95% and 85%	Pro-rata between 20% and 3%
85%	3%
Less than 85% of Adjusted Operating Profit	0%

- b. For the purpose of this Operating Cash Flow Conversion Ratio Target:
 - i. the “**Average Operating Cash Flow Conversion Ratio**” is the aggregate of the Operating Cash Flow Conversion Ratios for each Financial Year in the Performance Period, divided by the number of Financial Years in the Performance Period; and
 - ii. the “**Operating Cash Flow Conversion Ratio**” for a Financial Year (expressed as a percentage) is calculated as follows:

$$\left(\frac{\text{Operating Cash Flow}}{\text{Adjusted Operating Profit}} \right) \times 100$$

Where:

“**Operating Cash Flow**” in respect of a Financial Year is the adjusted profit from operations (excluding associates) plus depreciation, amortisation and impairment, plus other non-cash items, less the increase / (decrease) in working capital, less net capital expenditure, in each case for such Financial Year. All of these items are excluding costs and movements relating to restructuring and integration in the Financial Year; and

“Adjusted Operating Profit” in respect of a Financial Year is derived by excluding the adjusting items from the profit from operations for such Financial Year. Adjusting items include restructuring and integration costs, amortisation and impairment of trademarks and similar intangibles, a gain on deemed partial disposal of a trademark and a payment and release of a provision relating to non-tobacco litigation.

For the purpose of this Operating Cash Flow Conversion Ratio Target, Operating Cash Flow and Adjusted Operating Profit are calculated at current rates of exchange.

6. **Net Turnover Target**

- a. The performance target in this paragraph 6 (the “NTO Target”) operates by calculating the compound annual growth in the Net Turnover of the Company, measured at constant rates of exchange on an organic basis.
- b. The percentage of the Award Shares which may vest pursuant to this NTO Target depends upon the compound annual growth in Net Turnover over the Performance Period as follows:

Compound annual growth of Net Turnover over the Performance Period	% of the Award Shares which vest pursuant to this NTO Target
5% pa or greater	20%
Between 5% pa and 3% pa	Pro-rata between 20% and 3%
3% pa	3%
Less than 3% pa	0%

provided that, notwithstanding above, but subject to the Rules, no Award Shares shall vest pursuant to this NTO Target unless the three-year constant currency compound annual growth rate of underlying adjusted operating profit exceeds the compound annual growth rate of the threshold performance level for underlying adjusted operating profit, as defined annually in the International Executive Incentive Scheme (as approved by the Board).

- c. For the purposes of this NTO Target, compound annual growth of Net Turnover (expressed as a percentage) is calculated as follows:

$$\left[\left\{ \left(\frac{NTO^3}{NTO^0} \right)^{1/3} \right\} - 1 \right] \times 100$$

Where:

NTO^0 = Net Turnover in the Financial Year immediately preceding the Financial Year in which the Performance Period begins (being “Year 0”); and

NTO^3 = Net Turnover in the final Financial Year of the Performance Period (being “Year 3”),

measured at constant rates of exchange, for which purpose the value of NTO^0 and NTO^3 shall be taken as index values, with the value for NTO^0 being the base index value (representing Net Turnover in Year 0), with the purpose of such index being to reflect changes over the Performance Period in Net Turnover of the Company as measured on a constant currency basis, with NTO^3 being taken as the value of such index for Year 3, and where the values for NTO^3 and/or NTO^0 shall be adjusted in such manner as is determined by the Board to exclude any Net Turnover attributable to any business acquired or disposed of during the Performance Period or otherwise with the intention that the growth in Net Turnover is assessed by reference to organic growth.

7. **Exchange rates**

In this Schedule:

“current rates of exchange” means exchange rates applied for each year relevant to a given calculation based on the average exchange rate in that year; and

“constant rates of exchange” means exchange rates applied based on a re-translation, at prior year exchange rates, of the current year information, in order that the same exchange rates are applied for each year relevant to a given calculation.

8. **Adjustment to vesting outcome**

- a. After the performance targets in paragraphs 3 to 6 have been assessed, the Board may make such adjustment to the percentage of Shares of the Award Shares that vest pursuant to one or more of such performance targets to ensure a fair result for both the Participants and shareholders.
- b. An adjustment pursuant to this paragraph 8 may be either positive (but, for the avoidance of doubt, not so that the percentage of the Award Shares which vests pursuant to any one of the performance targets in paragraphs 3 to 6 exceeds the maximum percentage of the Award Shares which may vest pursuant to that performance target, as set out in paragraph 1) or negative (including reducing the percentage of Awards Shares which vest to nil). For the avoidance of doubt, where the Board makes any adjustment pursuant to this paragraph 8 the percentage of Award Shares to be transferred shall be the percentage as adjusted by the Board notwithstanding the outcome of the performance targets as set out in paragraphs 3 to 6.
- c. For the avoidance of doubt, vesting outcomes are subject to any forfeiture or reduction of Awards pursuant to Rule 15 (*Claw-back*).

9. **Adjustments to performance targets**

- a. In the event of:
 - i. a change to the accounting standards of the Company or similar event;
 - ii. any events which affect any of the companies comprised in the Comparator Group (such as a merger or de-listing);
 - iii. any variation of capital of the Company or a demerger, delisting, special dividend, rights issue or other event which may, in the opinion of the Board, affect the current or future value of the Company’s shares; or
 - iv. any other similar event the Board considers relevant which may unduly affect the calculation of the performance targets set out in paragraphs 3 to 6,

the Board may make such adjustments to the terms of this Performance Condition as it determines appropriate to reflect such event with the intention of ensuring that this Performance Condition continues to assess the performance of the Company on a consistent basis over the Performance Period.

- b. This Performance Condition may be amended in accordance with Rule 5.4 of the Plan.

General

10. References in this Schedule 1B to a paragraph are to a paragraph of this Schedule 1B.

EXHIBIT 12**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jack Bowles, certify that:

1. I have reviewed this annual report on Form 20-F of British American Tobacco p.l.c.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Signature: /s/ Jack Bowles
Jack Bowles
Chief Executive

Date: 9 March 2021

EXHIBIT 12**CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Tadeu Marroco, certify that:

1. I have reviewed this annual report on Form 20-F of British American Tobacco p.l.c.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (c) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (d) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Signature: /s/ Tadeu Marroco
Tadeu Marroco
Finance and Transformation Director

Date: 9 March 2021

EXHIBIT 13

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 20-F (the "Report") of British American Tobacco p.l.c., a public limited company incorporated in England and Wales (the "Company"), for the year ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof, each of the undersigned officers certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Signature: /s/ Jack Bowles
Jack Bowles
Chief Executive

Date: 9 March 2021

Signature: /s/ Tadeu Marroco
Tadeu Marroco
Finance and Transformation Director

Date: 9 March 2021

Consent of Independent Registered Public Accounting Firm

The Board of Directors
British American Tobacco p.l.c.:

We consent to the incorporation by reference in the Registration Statements (Nos. 333-219440, 333-223678 and 333-237186) on Form S-8 and the Registration Statement (No. 333-232691) on Form F-3 of British American Tobacco p.l.c. of our report, dated February 16, 2021, with respect to the Group Balance Sheet of British American Tobacco p.l.c. and subsidiaries (the "Group") as of December 31, 2020 and 2019, the related Group Income Statement, Group Statement of Comprehensive Income, Group Statement of Changes in Equity, and Group Cash Flow Statement for each of the years in the three-year period ended December 31, 2020, and the related notes, and the effectiveness of internal control over financial reporting as of December 31, 2020, which report appears in the December 31, 2020 annual report on Form 20-F of British American Tobacco p.l.c.

/s/ KPMG LLP
London, United Kingdom
March 9, 2021