BRITISH AMERICAN TOBACCO

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31 July 2013

BRITISH AMERICAN TOBACCO p.l.c.
HALF-YEARLY REPORT TO 30 JUNE 2013

CONTINUED GOOD PERFORMANCE

KEY FINANCIALS	**2013**		2012	Change	
Six Months Results - unaudited	**Current rates**	**Constant rates**	Restated**	Current rates	Constant rates
Revenue	**£7,572m**	**£7,745m**	£7,452m	+2%	+4%
Adjusted profit from operations*	**£2,944m**	**£3,001m**	£2,821m	+4%	+6%
Profit from operations	**£2,807m**	**£2,865m**	£2,722m	+3%	+5%
Adjusted diluted earnings per share*	**109.1p**	**111.1p**	101.3p	+8%	+10%
Basic earnings per share	**106.6p**		97.8p	+9%	
Interim dividend per share	**45.0p**		42.2p	+7%	

*The non-GAAP measures, including adjusting items and constant currencies, are set out on page 20.
***The 2012 comparatives have been restated to take account of the revised IAS 19 Employee Benefits (see page 19).*

HALF YEAR HIGHLIGHTS

- Group revenue was up by 2% and up by 4% at constant rates of exchange, mainly as a result of continuing good pricing momentum. Exchange rate movements adversely impacted three of the Group's four regions.
- Adjusted Group profit from operations increased by 4% and by 6% at constant rates of exchange.
- The reported profit from operations was 3% higher at £2,807 million.
- Group cigarette volume was 332 billion, a decline of 3.4%. Total tobacco volume (including cigarettes) was 3.2% lower. This performance was achieved against a total industry decline, a demanding one-off comparator and the leap year impact. Underlying cigarette volume decline was 2%.
- The Group's cigarette market share continued to increase in its Top 40 markets, led by good market share growth of the Global Drive Brands, which grew volume by 2.3%.
- Adjusted diluted earnings per share rose by 8% to 109.1p, principally as a result of the growth in profit from operations. At constant rates of exchange, it was up by 10%.
- Basic earnings per share were up by 9% at 106.6p (2012: 97.8p).
- The Board has declared an interim dividend of 45.0p, a 7% increase on last year, to be paid on 30 September 2013.

Richard Burrows, Chairman, commenting on the 6 months ended 30 June 2013

"Despite fragile economic conditions persisting in some parts of the world, notably Europe, British American Tobacco has delivered another good set of results. The business is performing well and we are confident of another year of good earnings growth."

CHIEF EXECUTIVE'S REVIEW

Continued good performance

We performed well during the first half of the year with strong pricing momentum, increased market share and continued growth in our Global Drive Brands, strengthening the foundations for another year of good results in line with our long term strategic goals.

The underlying business performance, measured by constant rates of exchange, was strong with revenue up by 4%, adjusted profit up by 6% and adjusted diluted earnings per share up by 10%.

The business performance was impacted by industry volume contraction in some parts of the world and fragile economic conditions persisting, notably in Europe. Despite the good performance in Asia-Pacific, Group cigarette volume from subsidiaries was 332 billion, down 3.4%. This was also adversely compounded by trade inventory movements last year in specific markets, notably Brazil and the GCC, and the leap year impact. Excluding these one-offs, the cigarette volume decline would have been 2%.

Share growth

We continued to grow cigarette market share in our Top 40 markets, led by the good performances of the Global Drive Brands (GDBs). Globally, Dunhill, Lucky Strike and Pall Mall all grew market share, while Kent was stable.

Collectively, our four GDBs achieved good volume growth of 2.3%. Our other International Brands grew by 1.9% and combined with our Global Drive Brands, now make up nearly 60% of our total cigarette volume.

Next-generation products

This month, CN Creative, our stand-alone company specialising in the development of next-generation products, launched Vype in the UK, the Group's new e-cigarette brand. This is another step in our ongoing commitment to developing a portfolio of next-generation products alongside our tobacco business.

Delivering shareholder value

The Group has been exposed to adverse exchange rate movements over the past six months. Despite this, once again, we delivered excellent value to shareholders, with adjusted diluted earnings per share up by 8% on last year. Our interim dividend of 45p is 7% up on last year and will be paid on 30 September 2013.

I remain confident that we have the right plans in place and the resources at hand to continue to strengthen our competitive position and to deliver another year of good growth.

Nicandro Durante
30 July 2013

REGIONAL REVIEW

References to profit in the regional review are based on adjusted profit from operations, as explained in the Group's non-GAAP measures on page 20. Adjusted profit from operations is derived after excluding adjusting items from profit from operations. Adjusting items include restructuring and integration costs and amortisation of trademarks and similar intangibles, as explained on page 23. The 2012 numbers are restated to take account of the revised IAS 19 *Employee Benefits* which has been adopted by the Group with effect from 1 January 2013. See page 34 for the income statement impact of the restatements.

Adjusted profit from operations at constant and current rates of exchange and volumes are as follows:

	Adjusted profit from operations			**Cigarette volumes**		
	6 months to			**6 months to**		Year to
	30.6.13		30.6.12 Restated	**30.6.13**	30.6.12	31.12.12
	Constant rates £m	**Current rates £m**	£m	**Bns**	Bns	Bns
Asia-Pacific	**890**	**875**	815	**100**	95	188
Americas	**755**	**732**	740	**64**	71	142
Western Europe	**556**	**573**	555	**57**	62	129
EEMEA	**800**	**764**	711	**111**	116	235
	3,001	**2,944**	2,821	**332**	344	694
Total tobacco volumes				**346**	357	722

British American Tobacco performed well during the first half of the year with strong pricing momentum and continued growth in the Global Drive Brands. The Group has been exposed to adverse exchange rate movements over the past months, in particular, the weakness of the Brazilian real, South African rand and Japanese yen against sterling.

Reported revenue was up by 2% as the impact of the continuing good pricing momentum was partially offset by adverse exchange rate movements and lower volumes, giving a strong price-mix of 7%. At constant rates of exchange, revenue was up by 4%.

The reported profit from operations was 3% higher at £2,807 million with a 4% increase in adjusted profit from operations.

Group cigarette volume from subsidiaries was 332 billion, down 3.4%. This was mainly the result of contracting industry volumes in some markets, a demanding comparator caused by trade inventory movements in Brazil and the GCC, and the leap year impact. Underlying cigarette volume was down by 2%.

Fine Cut performed well with strong volume growth of 6.7% to 10 billion sticks equivalent in Western Europe, mainly in Spain, Italy, Poland, Belgium and France. Pall Mall remains by far the biggest brand in Western Europe in this category. This performance led to market share growth and higher profit. Total tobacco volume (including cigarettes) was 3.2% lower at 346 billion. The conversion rates applied to calculate the cigarette equivalents of Other Tobacco Products are based on usage levels and are explained in appendix 1 on page 37.

Regional review cont...

Dunhill increased volume by 6% with growth in Indonesia, Chile, South Africa and South Korea partially offset by declines in the GCC and Brazil, mainly as a result of the one-off impacts in the comparator period. Kent maintained market share despite lower volume of 3% due to industry declines in Russia and Romania, partially offset by growth in other Eastern European markets.

Lucky Strike volume was down by 7%, mainly driven by the market contraction in Spain and instability in the Middle East, partially offset by higher volumes in Germany, France, Philippines, Poland and Argentina. Pall Mall volume rose by 8% with strong growth in Pakistan, Chile, Romania, Canada and Mexico partially offset by lower volumes in Russia and Spain.

Asia-Pacific: adjusted profit at constant rates of exchange increased by 9%
Adjusted profit was up by £60 million to £875 million as a result of strong performances in Australia, Vietnam, Pakistan and Bangladesh partially offset by unfavourable exchange rate movements. At constant rates of exchange, profit would have increased by £75 million or 9%. Volume at 100 billion was 5.5% higher than last year, with increases in Pakistan, Bangladesh, Vietnam, South Korea, Indonesia and Philippines, partially offset by lower volumes in Japan and Malaysia.

Country	Performance
Malaysia	The growth in market share continued through the excellent performance of Dunhill, strengthening the Group’s market leadership position. Profit was higher as the adverse impact of lower volume due to market contraction and the growth of illicit trade was offset by higher pricing and exchange rate movements.
Australia	Profit was up substantially as a result of higher pricing and cost saving initiatives, partially offset by slightly lower volume. Market share was lower as a result of competitor pricing activities leading to a growth in the ultra low-priced segment.
Japan	Market share was maintained despite significant competitor activity. Industry contraction led to lower volume. Exchange rate movements impacted profit.
Vietnam	Volume and market share grew across the portfolio. Profit increased as a result of higher prices and increased volume, as well as cost saving initiatives.
South Korea	Volume grew and market share was stable with a growing trend over the past eight months. Profit decreased on the back of higher marketing investment, partially offset by cost savings.
Pakistan	Volume growth, fuelled by Pall Mall and John Player Gold Leaf, led to a strong increase in market share. Profit increased significantly as a result of higher volume and improved margins coupled with productivity savings.
Bangladesh	The excellent growth in profit, volume and market share was the result of the strong performance of the whole brand portfolio.
Indonesia	Dunhill continued to perform well, driving an increase in overall volume and share growth in the premium segment. Substantially increased marketing investment behind the strategic brand portfolio and higher clove prices resulted in a decline in profit.
Philippines	As a result of our recent market entry following the removal of the discriminatory excise regime, Lucky Strike made good gains in volume and market share.

Americas: adjusted profit at constant rates of exchange increased by 2%

Adjusted profit declined by £8 million to £732 million, mainly due to exchange rate movements in Brazil and Venezuela. At constant rates of exchange, profit rose by £15 million or 2%. Good performances from Brazil, Canada and Mexico were partially offset by Argentina, Venezuela and Chile. Volume was down 9.4% at 64 billion, mainly due to reduced industry volume in Brazil, illicit trade growth and trade inventory movements ahead of excise-driven price increases which impacted the comparator period. Underlying volume decline was 7%.

Country	Performance
Brazil	Market share increased significantly but volume was lower due to market contraction after significant excise-driven price increases and a subsequent rise in illicit trade. Strong profit growth at constant rates was achieved through higher prices and overhead savings. Reported profit was down as a result of the adverse exchange rate movement.
Canada	Market share and volume were up and profit grew strongly. Leadership in the premium segment was further strengthened.
Mexico	Profit increased as a result of good market share growth and higher volume as the market recovered slightly after a drop in illicit trade, driven by Pall Mall's outstanding performance.
Argentina	The growth of Lucky Strike led to an increase in market share. Profit was down, the result of lower volume, higher marketing investment and the inflationary impact on costs.
Chile	Volume declined, following excise-driven price increases, resulting in reduced profit.
Venezuela	Market share was up against a backdrop of industry volume decline. Profit was lower, impacted by significant currency devaluations.

Western Europe: adjusted profit at constant rates of exchange was slightly higher

Adjusted profit was up by £18 million to £573 million and at constant rates of exchange, it was up by £1 million. Industry volume declined strongly due to the difficult economic conditions, affecting profit growth. There were good profit performances in Switzerland, the United Kingdom, Belgium, Sweden, France and Romania, partially offset by declines in Italy, Germany, the Netherlands and Denmark. Cigarette volume was 8.3% lower at 57 billion, mainly as a result of market contractions in Italy, Spain, Poland, the Netherlands, Denmark and Greece. However, Fine Cut volume was up 6.7% to 10 billion sticks equivalent, as a result of increases in Italy, Spain, Poland, Belgium and France.

Country	Performance
Italy	The difficult economic environment continued and resulted in significantly lower industry volume, leading to profit decline. While cigarette market share was lower, Fine Cut market share and profit grew strongly.
Germany	Volume was lower, in line with the industry decline but the good performance of Lucky Strike led to a stable market share. Profit declined mainly as a result of lower volume.
France	Market share was stable with good performances by Lucky Strike and Pall Mall Fine Cut. Cigarette volume was lower as a consequence of the industry volume decline. Profit was higher as a result of exchange rate movements.
Spain	Market share was maintained but volume was significantly lower due to the industry volume decline. Fine Cut volume was substantially up. Profit was lower despite a lower cost base.

Regional review cont...

Romania	A strong increase in market share was the result of good performances by Pall Mall and Dunhill, although volume was lower. Profit increased due to higher prices.
Poland	Industry volume and market share declined, impacting profit. Lucky Strike and Fine Cut performed well and grew volume.
United Kingdom	Strong performances from Pall Mall and Rothmans led to increased market share although volume was lower, impacted by the industry decline. Profit grew strongly due to price increases and cost management.
Denmark	Industry volume declined although market share was up. Profit was lower as a result of volume decline, partially offset by improved margins due to higher prices and lower costs.
Sweden	Profit increased strongly as a result of lower costs, higher prices and growing volume. Market share grew due to the performance of Pall Mall.

Eastern Europe, Middle East and Africa: adjusted profit at constant rates of exchange increased by 13%
Adjusted profit increased by £53 million to £764 million. This was principally due to price increases, partly offset by volume declines and the adverse impact of exchange rate movements. At constant rates of exchange, profit would have increased by £89 million or 13%. Volume at 111 billion was 5 billion lower, or 4.5% down on last year, driven by Turkey, Ukraine and one-off trade inventory movements in the GCC in 2012. Underlying volume declined by 3%.

Country	Performance
Russia	Industry volume declined but market share was significantly higher driven by the growth of Rothmans. Kent held its leadership position in the premium segment. Profit was in line with last year despite increased marketing investment.
Ukraine	Industry volume declined as a result of the significant growth of illicit trade. Market share increased strongly due to the growth of Rothmans and Kent. Profit was affected by lower volume and marketing investments, partially offset by improved pricing.
Turkey	Good profit growth was achieved due to improved pricing and cost savings. Market share declined despite the growth of Viceroy and Kent. Volume was lower.
GCC markets	Market share increased due to the good performances of Dunhill and John Player Gold Leaf. Profit was up due to higher pricing. However, volume was down due to trade inventory movements which impacted the comparator period.
Nigeria	Profit increased mainly due to cost saving initiatives. Volume was lower due to the continued instability in the north east of the country.
South Africa	Profit at constant currency grew as a result of price increases but this was more than offset by the adverse exchange rate movement. Despite a decline in total market share, Dunhill performed well against a backdrop of overall market volume contraction.

Regional review cont…

The following includes a summary of the analysis of revenue, profit from operations and diluted earnings per share, as reconciled between reported information and non-GAAP management information on pages 21 and 22.

REGIONAL INFORMATION

For the 6 months ended 30 June	Asia-Pacific	Americas	Western Europe	EEMEA	Total
SUBSIDIARIES					
Volume (cigarette billions)					
2013	100	64	57	111	332
2012	95	71	62	116	344
Change*	5.5%	(9.4%)	(8.3%)	(4.5%)	(3.4%)
Revenue (£m)					
2013 (at constant)	2,159	1,738	1,662	2,186	7,745
2013 (at current)	2,108	1,650	1,714	2,100	7,572
2012	2,050	1,706	1,649	2,047	7,452
Change (at constant)	5%	2%	1%	7%	4%
Change (at current)	3%	(3%)	4%	3%	2%
Adjusted profit from operations (£m)					
2013 (at constant)	890	755	556	800	3,001
2013 (at current)	875	732	573	764	2,944
2012 Restated	815	740	555	711	2,821
Change (at constant)	9%	2%	0%	13%	6%
Change (at current)	7%	(1%)	3%	7%	4%
Operating margin based on adjusted profit (%)					
2013 (at constant)	41.2%	43.4%	33.5%	36.6%	38.7%
2013 (at current)	41.5%	44.4%	33.4%	36.4%	38.9%
2012 Restated	39.8%	43.4%	33.7%	34.7%	37.9%

*Based on absolute volumes.

REGIONAL INFORMATION

For the 6 months ended 30 June	Asia-Pacific	Americas	Western Europe	EEMEA	Total
ASSOCIATES AND JOINT VENTURES					
Share of post-tax results of associates and joint ventures (£m)					
2013 (at current)	175	249	1	-	425
2012 Restated	150	185	-	1	336
Change	17%	35%			26%
Adjusted share of post-tax results of associates and joint ventures (£m)					
2013 (at constant)	152	216	1	-	369
2013 (at current)	148	219	1	-	368
2012 Restated	126	212	-	1	339
Change (at constant)	21%	2%			9%
Change (at current)	17%	3%			9%

GROUP

For the 6 months ended 30 June	Total
Underlying tax rate of subsidiaries (%)	
2013	30.5%
2012 Restated	30.8%
Adjusted diluted earnings per share (pence)	
2013 (at constant)	111.1
2013 (at current)	109.1
2012 Restated	101.3
Change (at constant)	10%
Change (at current)	8%

RESULTS OF ASSOCIATES

The Group's share of the post-tax results of associates increased by £89 million, or 26%, to £425 million. The Group's share of the adjusted post-tax results of associates increased by 9% to £368 million, with a rise of 9% to £369 million at constant rates of exchange.

The adjusted contribution from Reynolds American increased by 3% to £218 million. At constant rates of exchange the increase was 1%. The Group's adjusted contribution from its associate in India, ITC, was £144 million, up 18%. At constant rates of exchange, the contribution would have been 22% higher than last year.

See page 24 for the adjusting items.

NET FINANCE COSTS

Net finance costs at £241 million were £30 million higher than last year, principally reflecting higher interest paid as a result of increased borrowings, as well as decreased interest income on cash balances.

Net finance costs comprise:

	6 months to		Year to
	30.6.13	30.6.12	31.12.12
	£m	£m	£m
Finance costs	**(252)**	(248)	(505)
Finance income	**11**	37	49
	(241)	(211)	(456)
Comprising:			
Interest payable	**(302)**	(283)	(580)
Interest and dividend income	**24**	50	84
Net impact of fair value and exchange	**37**	22	40
- fair value changes - derivatives	**47**	32	71
- exchange differences	**(10)**	(10)	(31)
	(241)	(211)	(456)

TAXATION

	6 months to		Year to
	30.6.13	30.6.12	31.12.12
		restated	restated
	£m	£m	£m
UK	**-**	-	-
Overseas			
- current year tax expense	**751**	757	1,556
- adjustment in respective of prior periods	**-**	(7)	(18)
Current tax	**751**	750	1,538
Deferred tax	**52**	32	(22)
	803	782	1,516

The tax rate in the income statement of 26.8% for the six months to 30 June 2013 (30 June 2012 restated: 27.5%; 31 December 2012 restated: 27.1%) is affected by the inclusion of the share of associates' post-tax profit in the Group's pre-tax results and by adjusting items. The underlying tax rate for subsidiaries reflected in the adjusted earnings per share on page 29 was 30.5% in 2013 and 30.8% (restated) for the six months to 30 June 2012. For the year to 31 December 2012 it was 30.6% (restated). The decrease is mainly due to a change in the mix of profits. The charge relates to taxes payable overseas.

FREE CASH FLOW AND NET DEBT

Operating cash flow increased by £151 million or 9% to £1,840 million, primarily reflecting increased underlying operating performance. Taking into account the increased outflows relating to taxation and interest paid of £22 million and £21 million respectively, as well as higher dividends paid to non-controlling interests (£19 million increase), the Group's free cash flow was £91 million, 13% higher at £812 million.

The ratio of free cash flow per share to adjusted diluted earnings per share was 39% (2012 restated: 36%).

Closing net debt was £10,548 million at 30 June 2013 (30 June 2012: £9,395 million and 31 December 2012: £8,473 million).

The Group's alternative cash flow statement and analysis of net debt is shown on page 25 and explained on page 20 under non-GAAP measures.

RISKS AND UNCERTAINTIES

The principal risks and uncertainties affecting the business activities of the Group were identified under the heading 'Key Group risk factors', set out on pages 39 to 45 of the Annual Report for the year ended 31 December 2012, a copy of which is available on the Group's website www.bat.com. The Key Group risks and applicable sub-categories are summarised under the headings of:

Illicit trade: - Competition from illicit trade
Excise and tax: - Excise shocks from tax increases or structure changes; Onerous tax disputes, interest and penalties
Financial: - Translational foreign exchange rate exposures; Access to end market cash resources
Marketplace: - Geopolitical tensions; Risk of injury, illness or death in the workplace
Regulation: - Tobacco controls inhibit growth strategy; Product based regulation impacts costs and consumer demand; Loss of ability to communicate directly with consumer

In the view of the Board, the key risks and uncertainties for the remaining six months of the financial year continue to be those set out in the above section of the 2012 Annual Report. These should be read in the context of the cautionary statement regarding forward looking statements on page 36 of this Half-Yearly Report.

IMPLEMENTATION OF A NEW OPERATING MODEL

The Group has embarked on a medium-term programme to implement a new operating model. This includes revised organisation structures, standardised processes and shared back-office services underpinned by a global single instance of SAP. The new organisation structures and processes are currently being implemented and the deployment of the new SAP system, which was piloted at the end of 2012, will start in the fourth quarter 2013. This will take around four years to fully roll-out.

GOING CONCERN

A full 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 the Chief Operating Officer's Review and the Financial Review and in the notes to the accounts, all of which are included in the 2012 Annual Report that is available on the Group's website, www.bat.com. This Half-Yearly Report provides updated information regarding the business activities for the six months to 30 June 2013 and of the financial position, cash flow and liquidity position at 30 June 2013.

Going concern cont…

The Group has, at the date of this report, sufficient financing available for its estimated existing requirements for at least the next twelve months. This, together with the proven ability to generate cash from trading activities, the performance of the Group's Global Drive Brands, its leading market positions in a number of countries and its broad geographical spread, 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 the current financial conditions and the general outlook in the global economy.

After reviewing the Group's annual budgets, plans, current forecasts and financing arrangements, as well as the current trading activities of the Group, the Directors consider that the Group has adequate resources to continue operating for the foreseeable future and that it is therefore appropriate to continue to adopt the going concern basis in preparing this Half-Yearly Report.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm, that to the best of their knowledge, that this condensed financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union, and that this Half-Yearly Report includes a fair review of the information required by the Disclosure and Transparency Rules of the Financial Conduct Authority, paragraphs DTR 4.2.7 and DTR 4.2.8.

The Directors of British American Tobacco p.l.c. are as listed on pages 48 and 49 in the British American Tobacco Annual Report for the year ended 31 December 2012 with the exception of Robert Lerwill and Sir Nicholas Scheele who retired as Directors at the conclusion of the Annual General Meeting on 25 April 2013.

Details of all the current Directors of British American Tobacco p.l.c. are maintained on www.bat.com.

For and on behalf of the Board of Directors:

Richard Burrows	Ben Stevens
Chairman	Finance Director and Chief Information Officer
30 July 2013	

ENQUIRIES:

INVESTOR RELATIONS:		**PRESS OFFICE:**	
Mike Nightingale	020 7845 1180	Kate Matrunola	020 7845 2888
Rachael Brierley	020 7845 1519	Will Hill	

Webcast and Conference Call
A live webcast of the results is available via www.bat.com/ir.
If you wish to listen to the presentation via a conference call facility please use the dial in details below:
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Please quote passcode: 636263#

INDEPENDENT REVIEW REPORT TO BRITISH AMERICAN TOBACCO p.l.c.

Introduction
We have been engaged by the Company to review the condensed consolidated financial information in the Half-Yearly Report for the six months ended 30 June 2013, which comprises the Group income statement, the Group statement of comprehensive income, the Group statement of changes in equity, the Group balance sheet, the Group cash flow statement, the accounting policies and basis of preparation and the related notes. We have read the other information contained in the Half-Yearly Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial information.

Directors' responsibilities
The Half-Yearly Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-Yearly Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed on page 19, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated financial information in the Half-Yearly Report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed consolidated financial information in the Half-Yearly Report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial information in the Half-Yearly Report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
1 Embankment Place
London
30 July 2013

GROUP INCOME STATEMENT - unaudited

	6 months to		Year to
	30.6.13	30.6.12 Restated	31.12.12 Restated
	£m	£m	£m
Gross turnover (including duty, excise and other taxes of £15,125 million (30.6.12: £14,837 million; 31.12.12: £30,682 million))	**22,697**	22,289	45,872
Revenue	**7,572**	7,452	15,190
Raw materials and consumables used	**(1,678)**	(1,770)	(3,445)
Changes in inventories of finished goods and work in progress	**61**	138	133
Employee benefit costs	**(1,152)**	(1,185)	(2,426)
Depreciation, amortisation and impairment costs	**(253)**	(246)	(475)
Other operating income	**91**	124	245
Other operating expenses	**(1,834)**	(1,791)	(3,850)
Profit from operations	**2,807**	2,722	5,372
Analysed as:			
– adjusted profit from operations	**2,944**	2,821	5,641
– restructuring and integration costs	**(97)**	(68)	(206)
– amortisation of trademarks and similar intangibles	**(40)**	(31)	(63)
	2,807	2,722	5,372
Finance income	**11**	37	49
Finance costs	**(252)**	(248)	(505)
Net finance costs	**(241)**	(211)	(456)
Share of post-tax results of associates and joint ventures	**425**	336	676
Analysed as:			
– adjusted share of post-tax results of associates and joint ventures	**368**	339	681
– issue of shares and change in shareholding	**27**	24	20
– restructuring and integration costs	**(2)**	(25)	(24)
– change in post-retirement obligations	**-**	-	24
– other (see page 24)	**32**	(2)	(25)
	425	336	676
Profit before taxation	**2,991**	2,847	5,592
Taxation on ordinary activities	**(803)**	(782)	(1,516)
Profit for the period	**2,188**	2,065	4,076
Attributable to:			
Owners of the parent	**2,040**	1,908	3,797
Non-controlling interests	**148**	157	279
	2,188	2,065	4,076
Earnings per share			
Basic	**106.6p**	97.8p	195.8p
Diluted	**106.1p**	97.3p	194.8p
Adjusted diluted earnings per share	**109.1p**	101.3p	205.2p

All of the activities during both years are in respect of continuing operations.

The accompanying notes on pages 8 and 19 to 36 form an integral part of this condensed consolidated financial information.

GROUP STATEMENT OF COMPREHENSIVE INCOME - unaudited

	6 months to		Year to
	30.6.13	30.6.12 Restated	31.12.12 Restated
	£m	£m	£m
Profit for the period (page 12)	**2,188**	2,065	4,076
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:	**(103)**	(127)	(337)
Differences on exchange			
– subsidiaries	**(97)**	(182)	(379)
– associates	**97**	(68)	(145)
Cash flow hedges			
– net fair value gains/(losses)	**99**	4	(11)
– reclassified and reported in profit for the period	**(47)**	22	71
– reclassified and reported in net assets	**6**	6	12
Available-for-sale investments			
– net fair value (losses)/gains	**(11)**	1	(3)
– reclassified and reported in profit for the period	**-**	-	(1)
Net investment hedges			
– net fair value (losses)/gains	**(81)**	64	106
– differences on exchange on borrowings	**(50)**	44	49
Tax on items that may be reclassified	**(19)**	(18)	(36)
Items that will not be reclassified subsequently to profit or loss:	**195**	(230)	(306)
Retirement benefit schemes			
– net actuarial gains/(losses) in respect of subsidiaries	**200**	(237)	(381)
– surplus recognition and minimum funding obligations in respect of subsidiaries	**(49)**	-	60
– actuarial gains/(losses) in respect of associates net of tax	**55**	(39)	(39)
Tax on items that will not be reclassified	**(11)**	46	54
Total other comprehensive income for the period, net of tax	**92**	(357)	(643)
Total comprehensive income for the period, net of tax	**2,280**	1,708	3,433
Attributable to:			
Owners of the parent	**2,122**	1,566	3,163
Non-controlling interests	**158**	142	270
	2,280	1,708	3,433

The accompanying notes on pages 8 and 19 to 36 form an integral part of this condensed consolidated financial information.

GROUP STATEMENT OF CHANGES IN EQUITY - unaudited

At 30 June 2013

	Attributable to owners of the parent						
	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**	**Total equity £m**
Balance at 1 January 2013	**507**	**3,916**	**796**	**2,253**	**7,472**	**307**	**7,779**
Total comprehensive income for the period (page 13)	-	-	**(108)**	**2,230**	**2,122**	**158**	**2,280**
Profit for the period (page 12)	-	-	-	**2,040**	**2,040**	**148**	**2,188**
Other comprehensive income for the period (page 13)	-	-	**(108)**	**190**	**82**	**10**	**92**
Employee share options							
– value of employee services	-	-	-	**40**	**40**	-	**40**
– proceeds from shares issued	-	**3**	-	**1**	**4**	-	**4**
Dividends and other appropriations							
– ordinary shares	-	-	-	**(1,765)**	**(1,765)**	-	**(1,765)**
– to non-controlling interests	-	-	-	-	-	**(157)**	**(157)**
Purchase of own shares							
– held in employee share ownership trusts	-	-	-	**(75)**	**(75)**	-	**(75)**
– share buy-back programme	-	-	-	**(845)**	**(845)**	-	**(845)**
Other movements	-	-	-	**5**	**5**	-	**5**
Balance at 30 June 2013	**507**	**3,919**	**688**	**1,844**	**6,958**	**308**	**7,266**

At 30 June 2012

	Attributable to owners of the parent						
	Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings Restated £m	Total attributable to owners of parent Restated £m	Non-controlling interests Restated £m	Total equity Restated £m
Balance at 1 January 2012	506	3,913	1,112	2,636	8,167	307	8,474
Total comprehensive income for the period (page 13)	-	-	(111)	1,677	1,566	142	1,708
Profit for the period (page 12)	-	-	-	1,908	1,908	157	2,065
Other comprehensive income for the period (page 13)	-	-	(111)	(231)	(342)	(15)	(357)
Employee share options							
– value of employee services	-	-	-	37	37	-	37
– proceeds from shares issued	1	3	-	1	5	-	5
Dividends and other appropriations							
– ordinary shares	-	-	-	(1,723)	(1,723)	-	(1,723)
– to non-controlling interests	-	-	-	-	-	(143)	(143)
Purchase of own shares							
– held in employee share ownership trusts	-	-	-	(121)	(121)	-	(121)
– share buy-back programme	-	-	-	(676)	(676)	-	(676)
Non-controlling interests - acquisitions	-	-	-	(21)	(21)	(3)	(24)
Other movements	-	-	-	(10)	(10)	-	(10)
Balance at 30 June 2012	507	3,916	1,001	1,800	7,224	303	7,527

GROUP STATEMENT OF CHANGES IN EQUITY - unaudited cont…

At 31 December 2012

	Attributable to owners of the parent						
	Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings Restated £m	Total attributable to owners of parent Restated £m	Non-controlling interests Restated £m	Total equity Restated £m
Balance at 1 January 2012	506	3,913	1,112	2,636	8,167	307	8,474
Total comprehensive income for the year (page 13)	-	-	(316)	3,479	3,163	270	3,433
Profit for the year (page 12)	-	-	-	3,797	3,797	279	4,076
Other comprehensive income for the year (page 13)	-	-	(316)	(318)	(634)	(9)	(643)
Employee share options							
– value of employee services	-	-	-	73	73	-	73
– proceeds from shares issued	1	3	-	1	5	-	5
Dividends and other appropriations							
– ordinary shares	-	-	-	(2,538)	(2,538)	-	(2,538)
– to non-controlling interests	-	-	-	-	-	(267)	(267)
Purchase of own shares							
– held in employee share ownership trusts	-	-	-	(121)	(121)	-	(121)
– share buy-back programme	-	-	-	(1,258)	(1,258)	-	(1,258)
Non-controlling interests - acquisitions	-	-	-	(21)	(21)	(3)	(24)
Other movements	-	-	-	2	2	-	2
Balance at 31 December 2012	507	3,916	796	2,253	7,472	307	7,779

The accompanying notes on pages 8 and 19 to 36 form an integral part of this condensed consolidated financial information.

GROUP BALANCE SHEET - unaudited

	30.6.13	30.6.12	31.12.12
	£m	£m	£m
Assets			
Non-current assets			
Intangible assets	**11,924**	11,795	11,710
Property, plant and equipment	**3,226**	2,919	3,201
Investments in associates and joint ventures	**2,588**	2,522	2,330
Retirement benefit assets	**80**	42	105
Deferred tax assets	**282**	304	327
Trade and other receivables	**230**	319	224
Available-for-sale investments	**40**	39	37
Derivative financial instruments	**198**	185	207
Total non-current assets	**18,568**	18,125	18,141
Current assets			
Inventories	**4,046**	3,984	4,026
Income tax receivable	**80**	95	83
Trade and other receivables	**3,019**	2,699	2,741
Available-for-sale investments	**46**	45	26
Derivative financial instruments	**323**	184	166
Cash and cash equivalents	**1,726**	1,749	2,081
	9,240	8,756	9,123
Assets classified as held-for-sale	**59**	53	63
Total current assets	**9,299**	8,809	9,186
Total assets	**27,867**	26,934	27,327

The accompanying notes on pages 8 and 19 to 36 form an integral part of this condensed consolidated financial information.

GROUP BALANCE SHEET - unaudited cont…

	30.6.13 £m	30.6.12 £m	31.12.12 £m
Equity			
Capital and reserves			
Share capital	**507**	507	507
Share premium, capital redemption and merger reserves	**3,919**	3,916	3,916
Other reserves	**688**	1,001	796
Retained earnings	**1,844**	1,800	2,253
Owners of the parent	**6,958**	7,224	7,472
after deducting			
– cost of treasury shares	**(3,673)**	(2,259)	(2,824)
Non-controlling interests	**308**	303	307
Total equity	**7,266**	7,527	7,779
Liabilities			
Non-current liabilities			
Borrowings	**10,147**	9,526	9,083
Retirement benefit liabilities	**877**	1,076	1,152
Deferred tax liabilities	**548**	498	500
Other provisions for liabilities and charges	**393**	417	419
Trade and other payables	**155**	173	166
Derivative financial instruments	**137**	81	86
Total non-current liabilities	**12,257**	11,771	11,406
Current liabilities			
Borrowings	**2,307**	1,836	1,636
Income tax payable	**429**	475	404
Other provisions for liabilities and charges	**447**	346	210
Trade and other payables	**4,999**	4,871	5,827
Derivative financial instruments	**162**	108	65
Total current liabilities	**8,344**	7,636	8,142
Total equity and liabilities	**27,867**	26,934	27,327

The accompanying notes on pages 8 and 19 to 36 form an integral part of this condensed consolidated financial information.

GROUP CASH FLOW STATEMENT

	6 months to		Year to
	30.6.13	30.6.12	31.12.12
	£m	£m	£m
Cash flows from operating activities			
Cash generated from operations (page 27)	**1,867**	1,714	5,437
Dividends received from associates	**182**	176	486
Tax paid	**(730)**	(708)	(1,496)
Net cash generated from operating activities	**1,319**	1,182	4,427
Cash flows from investing activities			
Interest received	**26**	46	72
Dividends received from investments	**1**	2	2
Purchases of property, plant and equipment	**(151)**	(136)	(664)
Proceeds on disposal of property, plant and equipment	**20**	20	56
Purchases of intangibles	**(59)**	(77)	(140)
Proceeds from associate's share buy-back	**110**	117	262
Purchases and proceeds on disposals of investments	**(19)**	12	24
Purchase of subsidiaries	**(12)**	-	(12)
Net cash used in investing activities	**(84)**	(16)	(400)
Cash flows from financing activities			
Interest paid	**(274)**	(290)	(564)
Interest element of finance lease rental payments	**-**	(1)	(1)
Capital element of finance lease rental payments	**(2)**	(3)	(5)
Proceeds from issue of shares to owners of the parent	**3**	4	4
Proceeds from the exercise of options over own shares held in employee share ownership trusts	**1**	1	1
Proceeds from increases in and new borrowings	**1,486**	2,601	2,539
Movements relating to derivative financial instruments	**(76)**	(7)	93
Purchases of own shares	**(612)**	(536)	(1,258)
Purchases of own shares held in employee share ownership trusts	**(75)**	(121)	(121)
Purchases of non-controlling interests	**-**	(24)	(24)
Reductions in and repayments of borrowings	**(238)**	(1,475)	(1,821)
Dividends paid to owners of the parent	**(1,765)**	(1,723)	(2,538)
Dividends paid to non-controlling interests	**(154)**	(135)	(259)
Net cash used in financing activities	**(1,706)**	(1,709)	(3,954)
Net cash flows (used in)/generated from operating, investing and financing activities	**(471)**	(543)	73
Differences on exchange	**(12)**	(43)	(176)
Decrease in net cash and cash equivalents in the year	**(483)**	(586)	(103)
Net cash and cash equivalents at 1 January	**1,839**	1,942	1,942
Net cash and cash equivalents at period end	**1,356**	1,356	1,839

The accompanying notes on pages 8 and 19 to 36 form an integral part of this condensed consolidated financial information.

ACCOUNTING POLICIES AND BASIS OF PREPARATION

The condensed consolidated financial information comprises the unaudited interim financial information for the six months to 30 June 2013 and 30 June 2012, together with the audited results for the year ended 31 December 2012. This condensed consolidated financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure and Transparency Rules issued by the Financial Conduct Authority. The condensed consolidated financial information is unaudited but has been reviewed by the auditors and their review report is set out on page 11.

The condensed consolidated financial information does not constitute statutory accounts within the meaning of Section 434 of the UK Companies Act 2006 and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2012, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The annual consolidated financial statements for 2012 represent the statutory accounts for that year and have been filed with the Registrar of Companies. The auditors' report on those statements was unqualified and did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

These condensed consolidated financial statements have been prepared under the historical cost convention, except in respect of certain financial instruments, and on a basis consistent with the IFRS accounting policies as set out in the Annual Report for the year ended 31 December 2012, except where noted below.

With effect from 1 January 2013 the Group has adopted the revised IAS 19 *Employee Benefits.* The revised standard does not change the values of retirement benefit assets and liabilities on the balance sheet, but does change the amounts recognised in the income statement and in other comprehensive income. The expected return on plan assets and the interest cost on liabilities have been replaced by a new component of the income statement charge - interest on the net retirement benefit asset / liability. The revised standard has retrospective application and has reduced the profit for the six months to 30 June 2012 and the twelve months to 31 December 2012 by £21 million and £46 million, respectively, with compensating credits in other comprehensive income. See page 34 for the detail.

In addition, the Group has adopted the amendment to IAS 1 *Presentation of Financial Statements* which changes the presentation of certain items within other comprehensive income, and IFRS 13 *Fair Value Measurement* which provides a single source of fair value measurement and disclosure requirements for use across IFRS. The implementation of IFRS 13 does not require a restatement of historical transactions.

The Group has early adopted IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* with effect from 1 January 2013 along with the revised versions of IAS 27 *Separate Financial Statements* and IAS 28 *Associates*. While the requirements of IFRS 12 will potentially lengthen certain disclosures in respect of Group entities, the requirements of these standards will not materially affect the Group in its present form.

The preparation of these condensed consolidated financial information 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 these condensed consolidated financial information. 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 condensed consolidated financial information. The key estimates and assumptions were the same as those that applied to the consolidated financial information for the year ended 31 December 2012, apart from updating the assumptions used to determine the carrying value of liabilities for retirement benefit schemes. In the future, actual experience may deviate from these estimates and assumptions, which could affect these condensed consolidated financial information as the original estimates and assumptions are modified, as appropriate, in the period in which the circumstances change.

NON-GAAP MEASURES

In the reporting of financial information, the Group uses certain measures that are not required under 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 profit from operations and adjusted diluted earnings per share, which is reconciled to diluted earnings per share. 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. While the disclosure of adjusting items is not required by IFRS, these items are separately disclosed either as memorandum information on the face of the income statement and in the segmental analysis, or in the notes to the accounts as appropriate. The adjusting items are used to calculate the non-GAAP measures of adjusted profit from operations and adjusted share of post-tax results of associates and joint ventures. All adjustments to profit from operations and diluted earnings per share are explained in this announcement. See pages 23 to 24 and page 29.

The Management Board, as the chief operating decision maker, reviews current and prior year adjusted segmental income statement information of subsidiaries and associates and joint ventures at constant rates of exchange which provides an approximate guide to performance in the current year had they been translated at last year's rate 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's overseas entities but other than in exceptional circumstances, does not adjust for the normal transactional gains and losses in operations which are generated by exchange movements. As an additional measure to indicate the impact of the exchange rate movement on the Group results, the principal measure of adjusted diluted earnings per share is also shown at constant rates of exchange. See page 22.

In the presentation of financial information, the Group also uses another measure, organic growth, to analyse underlying business performance. Organic growth is the growth after adjusting for mergers and acquisitions and discontinued activities. Adjustments would be made to current and prior year numbers, based on the 2012 Group position but for the six months to 30 June 2013 no adjustments are necessary.

The Group prepares an alternative cash flow, which includes a measure of 'free cash flow', to illustrate the cash flows before transactions relating to borrowings. A net debt summary is also provided. See pages 25 and 26. The Group publishes gross turnover as an additional disclosure to indicate the impact of duty, excise and other taxes.

Due to the secondary listing of the ordinary shares of British American Tobacco p.l.c. on the main board of the JSE Limited (JSE) in South Africa, the Group is required to present headline earnings per share and diluted headline earnings per share, as alternative measures of earnings per share, calculated in accordance with Circular 3/2012 'Headline Earnings' issued by the South African Institute of Chartered Accountants. These are shown on page 30.

ANALYSIS OF REVENUE, PROFIT FROM OPERATIONS AND DILUTED EARNINGS PER SHARE

REVENUE

	30 June 2013				
	Reported revenue £m	Impact of exchange £m	Revenue @ CC(2) £m	Organic adjustments(3) £m	Organic revenue @ CC(2) £m
Asia-Pacific	**2,108**	**51**	**2,159**	**-**	**2,159**
Americas	**1,650**	**88**	**1,738**	**-**	**1,738**
Western Europe	**1,714**	**(52)**	**1,662**	**-**	**1,662**
EEMEA	**2,100**	**86**	**2,186**	**-**	**2,186**
Total	**7,572**	**173**	**7,745**	**-**	**7,745**

	30 June 2012		
	Reported revenue £m	Organic adjustments(3) £m	Organic revenue £m
Asia-Pacific	2,050	-	2,050
Americas	1,706	-	1,706
Western Europe	1,649	-	1,649
EEMEA	2,047	-	2,047
Total	7,452	-	7,452

PROFIT FROM OPERATIONS

	30 June 2013						
	Reported PFO(1) £m	Adjusting items £m	Adjusted PFO(1) £m	Impact of exchange £m	Adjusted PFO(1) @ CC(2) £m	Organic adjustments(3) £m	Organic Adjusted PFO(1) @ CC(2) £m
Asia-Pacific	**834**	**41**	**875**	**15**	**890**	**-**	**890**
Americas	**711**	**21**	**732**	**23**	**755**	**-**	**755**
Western Europe	**521**	**52**	**573**	**(17)**	**556**	**-**	**556**
EEMEA	**741**	**23**	**764**	**36**	**800**	**-**	**800**
Total	**2,807**	**137**	**2,944**	**57**	**3,001**	**-**	**3,001**

	30 June 2012				
	Reported PFO(1) restated £m	Adjusting items £m	Adjusted PFO(1) Restated £m	Organic adjustments(3) £m	Organic Adjusted PFO(1) Restated £m
Asia-Pacific	793	22	815	-	815
Americas	711	29	740	-	740
Western Europe	513	42	555	-	555
EEMEA	705	6	711	-	711
Total	2,722	99	2,821	-	2,821

Analysis of revenue, profit from operations and earnings per share cont...

DILUTED EARNINGS PER SHARE

	30 June 2013				
	Reported £m	Adjusting items £m	Adjusted £m	Impact of exchange £m	Adjusted @ CC(2) £m
Profit from subsidiaries	**2,807**	**137**	**2,944**	**57**	**3,001**
Net Finance costs	**(241)**	**-**	**(241)**	**9**	**(232)**
Associates and joint ventures	**425**	**(57)**	**368**	**1**	**369**
Profit before tax	**2,991**	**80**	**3,071**	**67**	**3,138**
Taxation	**(803)**	**(22)**	**(825)**	**(24)**	**(849)**
Non controlling interest	**(148)**	**(2)**	**(150)**	**(4)**	**(154)**
Profit attributable to shareholders	**2,040**	**56**	**2,096**	**39**	**2,135**
Diluted number of shares	**1,922**		**1,922**		**1,922**
Diluted earnings per share (pence)	**106.1**		**109.1**		**111.1**

	30 June 2012		
	Reported Restated £m	Adjusting items £m	Adjusted Restated £m
Profit from subsidiaries	2,722	99	2,821
Net Finance costs	(211)	-	(211)
Associates and joint ventures	336	3	339
Profit before tax	2,847	102	2,949
Taxation	(782)	(23)	(805)
Non controlling interest	(157)	-	(157)
Profit attributable to shareholders	1,908	79	1,987
Diluted number of shares	1,961		1,961
Diluted earnings per share (pence)	97.3		101.3

Notes:

(1) PFO: Profit from operations
(2) CC: Constant currencies
(3) Organic adjustments: Mergers and acquisitions and discontinued operations – no adjustments are required for 2013.

ADJUSTING ITEMS INCLUDED IN PROFIT FROM OPERATIONS

Adjusting items are significant items in the profit from operations which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance. See page 20. These items are separately disclosed as memorandum information on the face of the income statement.

(a) 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 initiatives include a review of the Group's manufacturing operations, overheads and indirect costs, organisational structure and systems and software used. The costs of these 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:

	6 months to		Year to
	30.6.13	30.6.12	31.12.12
	£m	£m	£m
Employee benefit costs	**41**	25	96
Depreciation and impairment costs	**14**	21	26
Other operating expenses	**42**	22	100
Other operating income	**-**	-	(16)
Total	**97**	68	206

Restructuring and integration costs in the six months to 30 June 2013 principally relate to the restructuring initiatives directly related to implementation of a new operating model (see page 9) and the continuation of factory closures and downsizing activities in Australia and Russia, and restructurings in Argentina and Canada. The costs also cover separation packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group.

Restructuring and integration costs in the six months to 30 June 2012 principally relate to the continuation of factory closure and downsizing activities in Australia and restructuring in Argentina. The costs also cover the social plan and other activities relating to the Bremen factory closure in Germany, integration of Productora Tabacalera de Colombia, S.A.S. (Protabaco) into existing operations, as well as other restructuring initiatives directly related to implementation of the new operating model.

For the year ended 31 December 2012, the charge of £206 million for restructuring and integration costs includes the activities referred to in respect of the six months to 30 June 2012. In addition, the costs also cover the write-off of non-compliant products and materials related to the implementation of plain packaging in Australia, separation packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group as well as other restructuring initiatives directly related to implementation of the new operating model.

Other operating income for the year ended 31 December 2012 included gains from the sale of land and buildings in the UK and South Africa and the release of deferred income from a disposal in 2007.

(b) Amortisation of trademarks and similar intangibles

The acquisitions of Protabaco, Bentoel, Tekel, ST and CN Creative resulted in the capitalisation of trademarks and similar intangibles which are amortised over their expected useful lives, which do not exceed 20 years. The amortisation charge of £40 million is included in depreciation, amortisation and impairment costs in the profit from operations for the six months to 30 June 2013 (30 June 2012: £31 million). For the year to 31 December 2012, the amortisation charge was £63 million.

ASSOCIATES AND JOINT VENTURES

The share of post-tax results of associates and joint ventures is after the following adjusting items which are excluded from the calculation of adjusted earnings per share as set out on page 29.

In the six months to 30 June 2013:

The Group's interest in ITC decreased from 30.72% to 30.54% as a result of ITC issuing ordinary shares under the Company's Employee Share Option Scheme. The issue of these shares and change in the Group's share of ITC resulted in a gain of £27 million, which is treated as a deemed partial disposal and included in the income statement.

Reynolds American recognised restructuring charges of US$8 million in respect of its overall activities. The Group's share of these charges is £2 million (net of tax).

Reynolds American has also recognised amounts which have been combined in the table of adjusting items in the Group income statement and are shown as "other". These include costs of US$4 million in respect of a number of Engle progeny lawsuits; the Group's share of these costs is £1 million (net of tax); costs of US$3 million relating to other tobacco related litigation charges; the Group's share of these costs is £1 million (net of tax); and during 2013, Reynolds American, various other tobacco manufacturers, 19 states, the District of Columbia and Puerto Rico reached a final agreement related to Reynolds American's 2003 Master Settlement Agreement (MSA) activities. Under this agreement Reynolds American will receive credits, currently estimated to be 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 will be applied against the company's MSA payments over the next five years, subject to meeting the various performance obligations. During the first half of this year, Reynolds American has recognised income of US$124 million related to its 2012 liability. The Group's share of this income is £34 million (net of tax). Credits in respect of the 2013 liability and future years would be accounted for in the applicable year and will not be treated as adjusting items.

In the six months to 30 June 2012:

The Group's interest in ITC decreased from 31.04% to 30.86% as a result of ITC issuing ordinary shares under the Company's Employee Share Option Scheme. The issue of these shares and change in the Group's share of ITC resulted in a gain of £24 million, which is treated as a deemed partial disposal and included in the income statement.

Reynolds American recognised restructuring charges of US$93 million in respect of its overall activities. The Group's share of these charges is £25 million (net of tax).

Included in "other" adjusting items in the Group income statement, Reynolds American has recognised costs of US$7 million in respect of a number of Engle progeny lawsuits and the Group's share of these costs is £2 million (net of tax).

For the year ended 31 December 2012:

The Group's interest in ITC decreased from 31.04% to 30.72% as a result of ITC issuing ordinary shares under the company's employee stock option scheme. The issue of shares and change in the Group's share of ITC resulted in a gain of £20 million, which is treated as a deemed partial disposal and included in the income statement.

Reynolds American recognised restructuring charges of US$149 million in respect of its overall activities. The Group's share of these charges is £24 million (net of tax). In addition, Reynolds American amended a post-retirement medical plan that resulted in a gain of US$157 million and the Group's share of this gain is £24 million (net of tax).

Reynolds American has also recognised amounts which have been combined in the table of adjusting items and reported in other. These mainly consist of a charge of US$37 million in respect of a number of Engle progeny lawsuits; the Group's share of these costs is £6 million (net of tax); and trademark amortisation and impairment of US$86 million; the Group's share of these charges amounts to £16 million (net of tax).

CASH FLOW AND NET DEBT MOVEMENTS

(a) Alternative cash flow

The IFRS cash flow statement on page 18 includes all transactions affecting cash and cash equivalents, including financing. The alternative cash flow statement below is presented to illustrate the cash flows before transactions relating to borrowings.

	6 months to		Year to
	30.6.13	30.6.12 Restated*	31.12.12 Restated*
	£m	£m	£m
Adjusted profit from operations (page 12)	**2,944**	2,821	5,641
Depreciation, amortisation and impairment	**199**	194	385
Other non-cash items in operating profit	**42**	23	45
Profit from operations before depreciation, amortisation and impairment	**3,185**	3,038	6,071
Increase in working capital	**(1,156)**	(1,159)	(242)
Net capital expenditure	**(189)**	(190)	(742)
Gross capital expenditure	**(209)**	(210)	(798)
Sale of fixed assets	**20**	20	56
Operating cash flow	**1,840**	1,689	5,087
Pension funds' shortfall funding net of one-off receipts	**(70)**	(70)	(164)
Net interest paid	**(274)**	(253)	(429)
Tax paid	**(730)**	(708)	(1,496)
Dividends paid to non-controlling interests	**(154)**	(135)	(259)
Cash generated from operations	**612**	523	2,739
Restructuring costs	**(92)**	(95)	(228)
Dividends and other appropriations from associates	**292**	293	748
Free cash flow	**812**	721	3,259
Dividends paid to shareholders	**(1,765)**	(1,723)	(2,538)
Share buy-back (including transaction costs)	**(612)**	(536)	(1,258)
Net investment activities	**(17)**	(27)	(43)
Net flow from share schemes and other	**(98)**	(85)	(57)
Net cash flow	**(1,680)**	(1,650)	(637)
External movements on net debt			
Exchange rate effects**	**(427)**	140	89
Change in accrued interest and other	**32**	43	3
Change in net debt	**(2,075)**	(1,467)	(545)
Opening net debt	**(8,473)**	(7,928)	(7,928)
Closing net debt	**(10,548)**	(9,395)	(8,473)

* 2012 numbers have been restated to separately show the additional cash flows in respect of the funding of pension funds in deficit, or where one-off amounts have been repaid from pension fund surpluses to Group companies, as well as the impact of the adoption of the revised IAS 19 *Employee Benefits* on the adjusted profit from operations and working capital movement.

** Including movements in respect of debt related derivatives.

Cash flow and net debt movements cont…

Operating cash flow increased by £151 million or 9% to £1,840 million, primarily reflecting increased underlying operating performance. Taking into account the increased outflows relating to taxation and interest paid of £22 million and £21 million respectively, as well as higher dividends paid to non-controlling interests (£19 million increase), the Group's free cash flow was £91 million or 13% higher at £812 million.

The ratio of free cash flow per share to adjusted diluted earnings per share was 39% (2012 restated: 36%), with free cash flow per share increasing by 15%.

Below free cash flow, the principal cash outflows for the six months to 30 June 2013 comprise the payment of the prior year final dividend which was £42 million higher at £1,765 million, as well as an outflow of £612 million due to the continuation of the on-market share buy-back programme in 2013 (2012: £536 million), including transaction costs.

Also reflected below free cash flow are the cash outflows of £17 million (2012: £27 million) in respect of investing activities. These include the further investment of £12 million in CN Creative in 2013, the purchase of non-controlling interests in British American Tobacco Bangladesh for £24 million in 2012, and the payment for manufacturing licences in 2013 and 2012.

The other net flows principally relate to the impact of the level of shares purchased by the employee share ownership trusts and cash flows in respect of certain derivative financial instruments.

These flows resulted in net cash outflows of £1,680 million (2012: £1,650 million). After taking account of exchange rate movements and the change in accrued interest, total net debt was £10,548 million at 30 June 2013 (30 June 2012: £9,395 million and 31 December 2012: £8,473 million).

(b) Net debt

The Group defines net debt as borrowings including related derivatives, less cash and cash equivalents and current available-for-sale investments. The maturity profile of net debt is as follows:

	30.6.13	30.6.12	31.12.12
	£m	£m	£m
Net debt due within one year:			
Borrowings	**(2,307)**	(1,836)	(1,636)
Related derivatives	**107**	72	41
Cash and cash equivalents	**1,726**	1,749	2,081
Current available-for-sale investments	**46**	45	26
	(428)	30	512
Net debt due beyond one year:			
Borrowings	**(10,147)**	(9,526)	(9,083)
Related derivatives	**27**	101	98
	(10,120)	(9,425)	(8,985)
Total net debt	**(10,548)**	(9,395)	(8,473)

The Group remains confident about its ability to access the debt capital markets successfully and reviews its options on a continuing basis.

Cash flow and net debt movements cont…

(c) IFRS cash generated from operations

The cash generated from operating activities in the IFRS cash flows on page 18 include the following items:

	6 months to		Year to
	30.6.13	30.6.12 Restated*	31.12.12 Restated*
	£m	£m	£m
Profit from operations	**2,807**	2,722	5,372
Adjustments for:			
Amortisation of trademarks and similar intangibles	**40**	31	63
Amortisation and impairment of other intangible assets	**27**	27	53
Depreciation and impairment of property, plant and equipment	**186**	188	359
Decrease/(increase) in inventories	**62**	(593)	(755)
(Increase) in trade and other receivables	**(240)**	(382)	(329)
(Decrease)/increase in trade and other payables	**(943)**	(167)	840
Decrease in net retirement benefit liabilities	**(117)**	(98)	(160)
Increase/(decrease) in provisions for liabilities and charges	**6**	(37)	(45)
Other non-cash items	**39**	23	39
Cash generated from operations	**1,867**	1,714	5,437

* See page 25

(d) IFRS net cash and cash equivalents

The net cash and cash equivalents in the Group cash flow statement comprise:

	30.6.13	30.6.12	31.12.12
	£m	£m	£m
Cash and cash equivalents per balance sheet	**1,726**	1,749	2,081
Overdrafts	**(370)**	(393)	(242)
Net cash and cash equivalents	**1,356**	1,356	1,839

(e) Liquidity

The Central Treasury Department is responsible for managing, within an overall policy framework, the Group's exposure to funding and liquidity, interest rate, foreign exchange and counterparty risk arising from the Group's underlying operations.

The Group has a target average centrally managed debt maturity of at least 5 years with no more than 20 per cent of centrally managed debt maturing in a single rolling year. As at 30 June 2013, the average centrally managed debt maturity was 6.8 years (31 December 2012: 7.2 years, 30 June 2012: 7.1 years) and the highest proportion of centrally managed debt maturing in a single rolling year was 18.2 per cent (31 December 2012: 19.3 per cent, 30 June 2012: 19.4 per cent).

In July 2013, post the 30 June 2013 balance sheet date, the Group repaid a €519 million bond from the Group's cash balances.

In March 2013, the Group issued a US$300 million bond with a maturity of March 2016 and €650 million bond with a maturity of March 2025.

Cash flow and net debt movements cont…

During the period to 30 June 2013, the Group's subsidiary in Brazil received proceeds of £323 million (2012 full year: £356 million, to 30 June 2012: £278 million) from short-term borrowings in respect of advance payments on leaf export contracts and repaid £172 million (31 December 2012: £350 million, 30 June 2012: £193 million).

In June 2012, the Group issued new US$2 billion bonds, US$500 million with a maturity of June 2015, US$600 million with a maturity of June 2017 and US$900 million with a maturity of June 2022.

In June 2012, the Group repaid a €337 million bond due in June 2012, prepaid and cancelled a US$690 million syndicated facility due October 2012, a Mexican Peso 1,444 million borrowing due September 2014 and a Mexican Peso 1,025 million borrowing due November 2014. These repayments were financed from Group cash balances.

In July 2012, the Group prepaid and cancelled a €450 million syndicated facility due October 2013. This repayment was financed from Group cash balances.

In November 2012, the Group issued a new €750 million bond with maturity of January 2023.

It is Group policy that short-term sources of funds (including drawings under both the Group US$2 billion commercial paper programme, and the Group £1 billion euro commercial paper (ECP) programme) are backed by undrawn committed lines of credit and cash. At 30 June 2013, £171 million of commercial paper was outstanding (31 December 2012: no commercial paper outstanding, 30 June 2012 £589 million).

EARNINGS PER SHARE

Adjusted diluted earnings per share rose by 8% at 109.1p (2012 restated: 101.3p), principally as a result of the growth in profit from operations. Basic earnings per share were up 9% at 106.6p (2012 restated: 97.8p).

	6 months to		Year to
	30.6.13	30.6.12 Restated	31.12.12 Restated
	pence	pence	pence
Earnings per share			
- basic	**106.6**	97.8	195.8
- diluted	**106.1**	97.3	194.8
Adjusted earnings per share			
- basic	**109.5**	101.8	206.3
- diluted	**109.1**	101.3	205.2
Headline earnings per share			
- basic	**105.7**	97.3	195.1
- diluted	**105.3**	96.8	194.1

Basic earnings per share are based on the profit for the year attributable to ordinary shareholders and the weighted average number of ordinary shares in issue during the period (excluding treasury shares).

For the calculation of the diluted earnings per share, the weighted average number of shares reflects the potential dilutive effect of employee share schemes.

Earnings per share cont…

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 3/2012 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

Earnings have been affected by a number of adjusting items which impact profit from operations (see page 23) and share of post-tax results of associates and joint ventures (see page 24). For the year to 31 December 2012, the merger of the Group's Colombian companies resulted in a reduction of £11 million against a deferred tax liability set up on the acquisition of Protabaco in 2011 which has also been treated as an adjusting item. In order to illustrate the impact of these items, the adjusted diluted earnings per share are shown below:

	Adjusted diluted earnings per share		
	6 months to		Year to
	30.6.13	30.6.12 Restated	31.12.12 Restated
	pence	pence	pence
Unadjusted diluted earnings per share	**106.1**	97.3	194.8
Effect of restructuring and integration costs	**4.3**	2.7	8.3
Effect of deferred tax credit	**-**	-	(0.6)
Effect of amortisation of trademarks and similar intangibles	**1.7**	1.2	2.4
Effect of associates' adjusting items	**(3.0)**	0.1	0.3
Adjusted diluted earnings per share	**109.1**	101.3	205.2

Similar types of adjustments would apply to basic earnings per share.

The earnings per share are based on:

	30.6.13		30.6.12		31.12.12	
	Earnings	**Shares**	Earnings Restated	Shares	Earnings Restated	Shares
	£m	**m**	£m	m	£m	m
Earnings per share						
- basic	**2,040**	**1,914**	1,908	1,951	3,797	1,939
- diluted	**2,040**	**1,922**	1,908	1,961	3,797	1,949
Adjusted earnings per share						
- basic	**2,096**	**1,914**	1,987	1,951	4,000	1,939
- diluted	**2,096**	**1,922**	1,987	1,961	4,000	1,949
Headline earnings per share						
- basic	**2,024**	**1,914**	1,899	1,951	3,784	1,939
- diluted	**2,024**	**1,922**	1,899	1,961	3,784	1,949

Earnings per share cont…

The diluted headline earnings per share are calculated by taking the following adjustments into account:

	Diluted headline earnings per share		
	6 months to		Year to
	30.6.13	30.6.12 Restated	31.12.12 Restated
	pence	pence	pence
Unadjusted diluted earnings per share	**106.1**	97.3	194.8
Effect of impairment of intangibles and property, plant and equipment	**0.6**	0.7	0.4
Effect of gains on disposal of property, plant and equipment and held-for-sale assets	**-**	-	(0.8)
Effect of gains reclassified from the available-for-sale reserve	**-**	-	(0.1)
Effect of share of associates' trademark and other asset impairments	**-**	-	0.8
Effect of issue of shares and change in shareholding in associate	**(1.4)**	(1.2)	(1.0)
Diluted headline earnings per share	**105.3**	96.8	194.1

DIVIDENDS

Declaration

The Board has declared an interim dividend of 45.0p pence per ordinary share of 25p for the six months ended 30 June 2013. The interim dividend will be payable on 30 September 2013 to shareholders registered on either the UK main register or the South Africa branch register on 23 August 2013 (the record date).

Key Dates and South Africa Branch Register

In compliance with the requirements of the London Stock Exchange (LSE) and of Strate, the electronic settlement and custody system used by the JSE Limited (JSE), the following salient dates for the payment of the interim dividend are applicable:

Event	Date 2013
Last Day to Trade (LDT) cum dividend (JSE)	Friday 16 August
Shares commence trading ex dividend (JSE)	Monday 19 August
Shares commence trading ex dividend (LSE)	Wednesday 21 August
Record date (JSE and LSE)	Friday 23 August
Payment date	Monday 30 September
No removal requests permitted between the UK main register and the South Africa branch register	Wednesday 31 July to Friday 23 August (inclusive)
No transfers permitted between the UK main register and the South Africa branch register	Monday 19 August to Friday 23 August (inclusive)
No shares may be dematerialised or rematerialised	Monday 19 August to Friday 23 August (inclusive)

As the Group reports in sterling, dividends are declared and payable in sterling except for shareholders on the branch register in South Africa whose dividends are payable in rand. A rate of exchange of £:R = 15.00890 as at 29 July 2013 (the closing rate on that date as quoted by Bloomberg), results in an equivalent interim dividend of 675.40050 SA cents per ordinary share.

Dividends cont…

South Africa Branch Register: Dividend Tax Information

South Africa Dividend Tax will be withheld from the gross interim dividend of 675.40050 SA cents per ordinary share paid to shareholders on the South African branch register at the rate of 15% unless a shareholder qualifies for an exemption. After Dividend Tax has been withheld, the net dividend will be 574.09043 SA cents per ordinary share.

At the close of business on 29 July 2013 (the latest practicable date prior to the date of the declaration of the interim dividend), British American Tobacco p.l.c. (the "Company") had a total of 1,907,026,376 ordinary shares in issue (excluding treasury shares). The Company held 119,426,237 ordinary shares in treasury giving a total issued share capital of 2,026,452,613 ordinary shares.

The Company, as a South Africa non-resident, was not subject to the secondary tax on companies (STC) regime which used to operate before the introduction of Dividend Tax. No STC credits are available for set-off against Dividend Tax liability on the interim dividend which is regarded as a 'foreign dividend' for the purposes of the South Africa Dividend Tax.

British American Tobacco p.l.c. is registered with the South African Revenue Service (SARS) with tax reference number 9378193172.

For the avoidance of doubt, Dividend Tax and the information provided above is of only direct application to shareholders on the South Africa branch register. Shareholders on the South Africa branch register should direct any questions regarding the application of Dividend Tax to Computershare Investor Services (Pty) Ltd, contact details for which are given in the 'Corporate Information' section below.

CHANGES IN THE GROUP

(a) CN Creative Limited

On 18 December 2012, the Group acquired CN Creative Limited, a UK-based start-up company specialising in the development of e-cigarette technologies. The company's entire share capital was acquired for £40 million, of which £14 million was paid in 2012 and a further £12 million paid during the current period. The remaining balance of the consideration payable is contingent upon the achievements of certain post-acquisition events. The only material asset acquired was the company's intellectual property.

(b) British American Tobacco Bangladesh

On 27 June 2012, the Group acquired a further 7 per cent interest in British American Tobacco Bangladesh Company Limited at a cost of £24 million. This increased the Group's total shareholding to 73 per cent as at 30 June 2012.

SHARE BUY-BACK PROGRAMME

The Company continues with its approved on-market share buy-back programme with a value of up to £1,500 million, excluding transaction costs. During the six months to 30 June 2013, 18 million shares were bought at a cost of £641 million, excluding transaction costs of £4 million (30 June 2012: 18 million shares at a cost of £553 million, excluding transaction costs of £3 million).

For the year ended 31 December 2012, 38.9 million shares were bought at a cost of £1,250 million, excluding transaction costs of £8 million.

The purchase of own shares in the Group statement of changes in equity, includes an amount of £200 million (30 June 2012: £120 million) provided for the potential buy-back of shares during July 2013 under an irrevocable non-discretionary contract.

RELATED PARTY DISCLOSURES

In the six months to 30 June 2013, there were no material changes in related parties or related party transactions. The Group's related party transactions and relationships for 2012 were disclosed on page 174 of the Annual Report for the year ended 31 December 2012.

FOREIGN CURRENCIES

The principal exchange rates used were as follows:

	Average			Closing		
	30.6.13	30.6.12	31.12.12	**30.6.13**	30.6.12	31.12.12
US dollar	**1.544**	1.577	1.586	**1.517**	1.568	1.626
Canadian dollar	**1.568**	1.586	1.584	**1.600**	1.599	1.619
Euro	**1.176**	1.216	1.234	**1.167**	1.236	1.233
South African rand	**14.221**	12.521	13.054	**15.057**	12.828	13.791
Brazilian real	**3.139**	2.941	3.109	**3.351**	3.166	3.328
Australian dollar	**1.523**	1.528	1.532	**1.657**	1.530	1.566
Russian rouble	**47.915**	48.255	49.277	**49.790**	50.876	49.656
Japanese yen	**147.400**	125.689	126.633	**150.661**	125.147	140.549
Indian rupee	**84.922**	82.267	84.838	**90.130**	87.574	89.061

CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

The Group has contingent liabilities in respect of litigation, taxes and guarantees in various countries. The Group is subject to contingencies pursuant to requirements that it complies with relevant laws, regulations and standards. 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, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated, a provision will be recognised based on best estimates and management judgment. There are, however, contingent liabilities in respect of litigation, taxes in some countries and guarantees for which no provisions have been made.

Taxes

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. In some cases disputes are proceeding to litigation.

While the amounts that may be payable or receivable 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.

Product liability

Group companies, as well as other leading cigarette manufacturers, are defendants in a number of product liability cases. In a number of the cases, the amounts of compensatory and punitive damages sought are significant. At least in the aggregate and despite the quality of the defences available to the Group, it is not impossible that the results of operations or cash flows of the Group in a particular period could be materially affected by this.

Contingent liabilities cont…

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. If an adverse judgment is entered against any of the Group's companies in any case, an appeal will be made. Such appeals could require the appellants to post appeal bonds or substitute security in amounts which could in some cases equal or exceed the amount of the judgment. In any event, with regard to US litigation, the Group has the benefit of the indemnity from R. J. Reynolds Tobacco Company, a wholly-owned subsidiary of Reynolds American Inc. 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 a particular period could be materially affected by this and by the final outcome of any particular litigation.

Summary

Having regard to all these matters, the Group (i) does not consider it appropriate to make any provision in respect of any pending litigation, save insofar as stated above and (ii) does not believe that the ultimate outcome of this litigation will significantly impair the Group's financial condition.

Full details of the litigation against Group companies as at 31 December 2012 are included in the Annual Report for the year ended 31 December 2012. There were no material developments during the six months to 30 June 2013 that would impact on the financial position of the Group.

FRANKED INVESTMENT INCOME GROUP LITIGATION ORDER

British American Tobacco is the principal test claimant in an action in the United Kingdom against HM Revenue and Customs in the Franked Investment Income Group Litigation Order (FII GLO). There are 25 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 claim was filed in 2003 and the case was heard in the European Court of Justice (ECJ) in 2005 and a decision of the ECJ received in December 2006. In July 2008, the case reverted to a trial in the UK High Court for the UK Court to determine how the principles of the ECJ decision should be applied in a UK context.

The High Court judgement in November 2008 concluded, amongst many other things, that dividends received from EU subsidiaries should have been exempt from UK taxation. It also concluded that certain dividends received before 5 April 1999 from the EU and, in some limited circumstances after 1993 from outside the EU, should have been treated as franked investment income with the consequence that advance corporation tax (ACT) need not have been paid. Claims for the repayment of UK tax incurred where the dividends were from the EU were allowed back to 1973. The tentative conclusion reached by the High Court would, if upheld, produce an estimated receivable of about £1.2 billion for British American Tobacco.

The case was heard by the Court of Appeal in October 2009 and the judgment handed down on 23 February 2010. The Court of Appeal determined that various questions, including which companies in the corporate tree can be included in a claim, should be referred back to the ECJ for further clarification. In addition, the Court determined that the claim should be restricted to six years and not cover claims dating back to 1973. The issue of time limits was heard by the Supreme Court in February 2012 and in May 2012 the Supreme Court decided in British American Tobacco Group's favour, that claims submitted before 8 September 2003 can go back to 1973. A hearing took place in February 2012 at the ECJ on the questions referred from the Court of Appeal.

The ECJ judgement of 13 November 2012 confirms that the UK treatment of EU dividends was discriminatory and produces the same outcome for third country dividends from 1994 in certain circumstances. The judgement also confirms that the claim can cover dividends from all indirect as well as direct EU subsidiaries and also ACT paid by a superior holding company.

Franked Investment Income Group litigation order cont…

The case will now revert to the UK High Court to apply the ECJ judgement and a full quantification hearing is scheduled for May 2014.

No potential receipt has been recognised in the current period or the prior year, in the results of the Group, due to the uncertainty of the amounts and eventual outcome.

IMPACT OF CHANGE IN ACCOUNTING POLICY

The impact of the revised IAS19 *Employee Benefits* on the results for the six months to 30 June 2012 and the twelve months to 31 December 2012 is as follows:

	6 months to 30.6.12			Year to 31.12.12		
	Previously reported	Restated	Change	Previously reported	Restated	Change
	£m	£m	£m	£m	£m	£m
Income statement						
- Profit from operations	2,740	2,722	(18)	5,412	5,372	(40)
- Adjusted profit from operations	2,839	2,821	(18)	5,681	5,641	(40)
- Share of post-tax results of associates and joint ventures	344	336	(8)	692	676	(16)
- Adjusted share of post-tax results of associates	347	339	(8)	697	681	(16)
- Profit before taxation	2,873	2,847	(26)	5,648	5,592	(56)
- Taxation on ordinary activities	(787)	(782)	5	(1,526)	(1,516)	10
- Profit for the period	2,086	2,065	(21)	4,122	4,076	(46)

FAIR VALUE MEASUREMENTS AND VALUATION PROCESSES

The Group held certain financial instruments at fair value at 30 June 2013.

As part of the amendments to IFRS due to IFRS 13 *Fair Value Measurement*, which has prospective application from 1 January 2013, certain of the year end disclosures required by IFRS 7 *Financial Instruments: Disclosures* are required to be shown in the Half-Yearly Report.

The definitions and valuation techniques employed for these as at 30 June 2013 are consistent with those used at 31 December 2012 and disclosed in Note 24 on pages 165 to 166 of the 2012 Annual Report:

- Level 1 financial instruments are traded in an active market and fair value is based on quoted prices at the period end.
- 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 certain money market securities and most OTC derivatives.
- The fair values of level 3 financial instruments have been determined using a valuation technique where at least one input (which could have a significant effect on the instrument's valuation) is not based on observable market data. The Group’s level 3 financial instruments primarily consist of an equity investment in an unquoted entity which is valued using the discounted cash flows of estimated future dividends.

Fair value measurements and valuation processes cont…

While the carrying values of assets and liabilities at fair value have changed since 31 December 2012, the Group does not consider the movements in value to be significant, and the categorisation of these assets and liabilities in accordance with the disclosure requirements of IFRS 7 has not materially changed. The values of level 1 assets and level 3 assets are not material to the Group and were £32 million and £39 million respectively at 30 June 2013 (£26 million and £37 million respectively at 31 December 2012).

Level 2 assets and liabilities are shown below.

	30.6.2013	31.12.2012
	Level 2	Level 2
	£m	£m
Assets at fair value		
Available-for-sale investments	**15**	
Derivatives relating to		
– interest rate swaps	**272**	209
– cross-currency swaps	**35**	10
– forward foreign currency contracts	**214**	154
Assets at fair value	**536**	373
Liabilities at fair value		
Derivatives relating to		
– interest rate swaps	**139**	55
– cross-currency swaps	**35**	30
– forward foreign currency contracts	**124**	65
– others	**1**	1
Liabilities at fair value	**299**	151

The fair value of borrowings is estimated to be £13,440 million (December 2012: £12,041 million) and has been determined using quoted market prices or discounted cash flow analysis. The value of other assets and liabilities held at amortised cost are not materially different from their fair values.

POST BALANCE SHEET EVENTS

British American Tobacco Myanmar Limited

On 8 July 2013, the Group completed a joint venture in Myanmar with I.M.U. Enterprise Limited (IMU) to manufacture, distribute and market the Group's brands. Under the terms of the agreement, the Group has contributed plant and machinery and cash to the venture in return for a controlling stake, and will therefore account for the transaction as a business combination.

The fair value table below, stated at the exchange rates ruling at the date of the transaction, has been based on available management information and, given the short period of time since acquisition, work is continuing in respect of the fair value exercise and the necessary adjustments between local GAAP and IFRS to determine acquired book values. The values shown in the table below are therefore provisional and the full table will be presented and updated in due course as permitted under IFRS 3.

Post balance sheet events cont…

Provisional values

	Book values £m	Fair value adjustments £m	Estimated fair value £m
Property, plant and equipment	9		9
Trade and other receivables	6	(2)	4
Inventories	4		4
Cash and cash equivalents	3		3
Trade and other payables	(4)		(4)
	18	(2)	16
Less: non-controlling share of net assets acquired			(8)
Proportion of net assets acquired			8
Goodwill			1
Total consideration (including cash £3 million)			9

The provisional goodwill of £1 million on the acquisition of the 51 per cent stake in the business reflects the strategic premium to acquire the opportunity to re-enter the Myanmar market.

DISCLAIMERS

This announcement does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any British American Tobacco p.l.c. shares or other securities.

This announcement contains certain forward looking statements which are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries and markets in which the Group operates. It is believed that the expectations reflected in this announcement are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

ANNUAL REPORT AND HALF-YEARLY REPORT

Annual Report: Statutory Accounts

The information for the year ended 31 December 2012 does not constitute statutory accounts as defined in s434 of the Companies Act 2006. A copy of the statutory accounts for that year 2012 has been delivered to the Registrar of Companies. The auditors' report on the 2012 accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006.

Half-Yearly Report: Publication

This Half-Yearly Report is released to the London Stock Exchange and the JSE Limited. It may be viewed and downloaded from our website www.bat.com.

Copies of the announcement may also be obtained during normal business hours from: (1) the Company's registered office; (2) the Company's representative office in South Africa; and (3) British American Tobacco Publications, as below.

Nicola Snook
Secretary
30 July 2013

OTHER TOBACCO PRODUCTS

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

The usage rates that are applied:

	Equivalent to one cigarette
Roll-your-own (RYO)	0.8 grams
Make-your-own (MYO)	
- Expanded tobacco	0.5 grams
- Optimised tobacco	0.7 grams
Cigars	1 cigar
Snus	
- Pouches	1 pouch
- Loose snus	2.0 grams

Roll-your-own (RYO)
Loose tobacco designed for hand rolling, normally a finer cut with higher moisture, compared to cigarette tobacco.

Make-your-own (MYO)
MYO Expanded tobacco; also known as volume tobacco
Loose cigarette tobacco with enhanced filling properties – to allow higher yields of cigarettes/kg – designed for use with cigarette tubes and filled via a tobacco tubing machine.

MYO Non-expanded tobacco; also known as optimised tobacco
Loose cigarette tobacco designed for use with cigarette tubes and filled via a tobacco tubing machine.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Monday 30 September 2013	Payment date of 2013 interim dividend
Wednesday 23 October 2013	Interim Management Statement
Thursday 27 February 2014	Preliminary Statement 2013

CALENDAR FOR THE INTERIM DIVIDEND 2013

2013

Wednesday 31 July	Declaration of interim dividend: amount of dividend per ordinary share in both sterling and rand; applicable exchange rate and conversion date – Monday 29 July 2013; plus additional applicable information as required in respect of South Africa Dividend Tax*.
Wednesday 31 July to Friday 23 August	From the commencement of trading on Wednesday 31 July 2013 to Friday 23 August 2013, no removal requests in either direction between the UK main register and the South Africa branch register will be permitted.
Friday 16 August	Last Day to Trade or LDT (JSE)
Monday 19 August to Friday 23 August	No transfers between the UK main register and the South Africa branch register will be permitted; no shares may be dematerialised or rematerialised between these inclusive dates.
Monday 19 August	Ex-dividend date (JSE)
Wednesday 21 August	Ex-dividend date (LSE)
Friday 23 August	Record date (LSE and JSE)
Monday 30 September	Payment date (sterling and rand)

* Details of the applicable exchange rate and the South Africa Dividend Tax information can be found under the heading 'Dividends' on page 30.

American Depositary Receipts (ADRs)
For holders of ADRs, the record date is Friday 23 August 2013 with a payment date of Thursday 3 October 2013.

CORPORATE INFORMATION

Premium listing
London Stock Exchange (Share Code: BATS; ISIN: GB0002875804)
Computershare Investor Services PLC
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ, UK
tel: 0800 408 0094; +44 870 889 3159
Share dealing tel: 0870 703 0084 (UK only)
Your account: www.computershare.com/uk/investor/bri
Share dealing: www.computershare.com/dealing/uk
Web-based enquiries: www.investorcentre.co.uk/contactus

Secondary listing
JSE (Share Code: BTI)
Shares are traded in electronic form only and transactions settled electronically through Strate.
Computershare Investor Services (Pty) Ltd
PO Box 61051, Marshalltown 2107, South Africa
tel: 0861 100 925; +27 11 870 8222
email enquiries: web.queries@computershare.co.za

American Depositary Receipts (ADRs)
NYSE MKT Equities (Symbol: BTI; CUSIP Number: 110448107)
Sponsored ADR programme; each ADR represents two ordinary shares of British American Tobacco p.l.c.
Citibank Shareholder Services
PO Box 43077
Providence, Rhode Island 02940-3077, USA
tel: 1-888-985-2055 (toll-free) or +1 781 575 4555
email enquiries: citibank@shareholders-online.com
website: www.citi.com/dr

Publications
British American Tobacco Publications
Unit 80, London Industrial Park, Roding Road, London E6 6LS, UK
tel: +44 20 7511 7797; facsimile: +44 20 7540 4326
e-mail enquiries: bat@team365.co.uk or
Computershare Investor Services (Pty) Ltd in South Africa using the contact details shown above.

British American Tobacco p.l.c.
Registered office
Globe House
4 Temple Place
London
WC2R 2PG
tel: +44 20 7845 1000

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

British American Tobacco p.l.c.
Representative office in South Africa
34 Alexander Street
Stellenbosch
7600
South Africa
(PO Box 631, Cape Town 8000, South Africa)
tel: +27 21 888 3722