BRITISH AMERICAN TOBACCO

news release
www.bat.com

25 February 2016

BRITISH AMERICAN TOBACCO p.l.c.
PRELIMINARY ANNOUNCEMENT – YEAR ENDED 31 DECEMBER 2015

EXCELLENT PERFORMANCE DRIVEN BY MARKET SHARE GROWTH

KEY FINANCIALS	2015		2014	Change	
	Current rates	Constant rates		Current rates	Constant rates
Revenue	**£13,104m**	**£14,720m**	£13,971m	-6.2%	+5.4%
Adjusted profit from operations*	**£4,992m**	**£5,620m**	£5,403m	-7.6%	+4.0%
Profit from operations	**£4,557m**	**£5,162m**	£4,546m	+0.2%	+13.6%
Adjusted diluted earnings per share*	**208.4p**	**229.1p**	208.1p	+0.1%	+10.1%
Basic earnings per share	**230.9p**		167.1p	+38.2%	
Dividends per share	**154.0p**		148.1p	+4.0%	

*The non-GAAP measures, including adjusting items and constant currencies, are set out on page 19.

FULL YEAR HIGHLIGHTS

- Group cigarette volume fell by 0.5% to 663 billion, an organic decline of 0.8% excluding the acquisition of TDR in Croatia, against an estimated industry decline of 2.3%. Total tobacco volume was 0.8% lower than the previous year.
- The Group's cigarette market share[1] in its Key Markets[2] continued to grow strongly, higher by over 40 basis points (bps), driven by our Global Drive Brands which grew volume by 8.5% and market share by 120 bps.
- Group revenue was up by 5.4% at constant rates of exchange. Reported revenue was down 6.2%, as a result of adverse exchange rate movements.
- Adjusted Group profit from operations increased by 4.0% at constant rates of exchange. Excluding the transactional effect of foreign exchange on raw materials and leaf this would have been an increase of around 10%. Adjusted Group profit from operations was down by 7.6% at current rates.
- Profit from operations, at current rates of exchange, was 0.2% higher at £4,557 million, impacted by adverse exchange movements, on a translational and transactional level.
- Without the adverse transactional impact of foreign exchange, operating margin would have improved by around 160 bps. However, at current rates it fell by 60 bps to 38.1%.
- Adjusted diluted earnings per share, at constant translational rates of exchange, were up by 10.1% despite the transactional headwinds from foreign exchange. At current rates, they were up 0.1% at 208.4p.
- Basic earnings per share were 38.2% higher at 230.9p (2014: 167.1p), benefiting from one off gains as a result of the acquisition of Lorillard Inc. by the Group's associate Reynolds American Inc. (RAI).
- The Group invested US$4.7 billion to maintain a 42% shareholding in the enlarged RAI, concluded the £1.7 billion acquisition of the shares not already owned by the Group in Souza Cruz S.A. and acquired TDR in Croatia for €550 million.
- The Group acquired the leading e-cigarette business in Poland (CHIC) and signed a vapour collaboration agreement with RAI.
- The Board has recommended a final dividend of 104.6p, to be paid on 5 May 2016. This will take the 2015 total dividend to 154.0p per share, an increase of 4%.

1 Key Market offtake share, as independently measured by AC Nielsen.
2 The Group's Key Markets represent around 80% of the Group's volume

Richard Burrows, Chairman, commenting on the year ended 31 December 2015

"The Group had an excellent year in 2015, despite a challenging external environment. Led by growth across all of our Global Drive Brands, the Group delivered another year of very good revenue and profit growth at constant rates of exchange. Despite significant currency headwinds impacting reported results, the excellent underlying performance of the Group in 2015 and the increase in our total dividend for 2015 to 154.0p are testimony to the strength of the business, our strategy and our confidence in the future."

CHIEF EXECUTIVE'S REVIEW

In 2015, we delivered an excellent performance in a difficult environment

We delivered outstanding results in 2015, against a very challenging external environment and with significant adverse transactional foreign exchange rate movements.

Driven by a very strong second half of the year, with cigarette volume higher by 1.7%, total Group cigarette volume for the full year was down by only 0.5% to 663 billion. This was significantly better than the overall estimated industry decline of 2.3%. After excluding the impact of the TDR acquisition, organic cigarette volume decline was still ahead of the market at 0.8%.

Market share in our Key Markets increased by over 40 bps. This was driven by an excellent performance from our Global Drive Brands, which grew volume by an exceptional 8.5% and increased market share by 120 bps.

At constant rates of exchange, we grew revenue by 5.4%, adjusted profit from operations by 4.0% and adjusted diluted earnings per share by 10.1%. Excluding the significant transactional effect of foreign exchange on the cost of raw materials and leaf, adjusted profit from operations would have grown by approximately 10%.

Price mix of 5.9% was up from 4.2% in 2014. Underlying operating margin grew by around 160 bps, although on a reported basis it was down by 60 bps to 38.1%. This was largely due to the transactional impact of unfavourable foreign exchange described above.

These excellent results in 2015 are once again proof of the strength of our strategy. These were achieved despite unprecedented adverse exchange rate movements and continuing pressure on consumers' disposable income.

Continuing progress in Next Generation Products

We are confident that Next Generation Products can deliver a substantial and sustainable commercial return to shareholders over the long term.

In 2015, we continued to grow market share of Vype, our e-cigarette brand, in the UK where we launched three new products and a range of new e-liquid flavours. We also expanded the geographical footprint of our Next Generation Product business beyond the UK, with launches of Vype in France, Germany, Italy, Poland and Colombia. Additionally, our first Tobacco Heating Product, the 'glo iFuse', was launched in Romania with excellent initial levels of consumer acceptance.

We also continued our R&D focus on building a high quality pipeline of products across three distinct Next Generation Product categories – Vapour Products (e-cigarettes), Tobacco Heating Products and Licensed Medicinal Products.

Progress is encouraging and our ambition is to lead the category worldwide.

Our strategy continues to deliver

Since we updated the Group strategy in 2011, we have seen the business continue to perform strongly. We have increased our share of the global cigarette market and significantly grown share in key market segments. Our Global Drive Brands have grown year-on-year, accounting now for 45% of all Group cigarettes sold (up from 34% in 2011) and they continue to be a key pillar for future growth.

In 2016 we expect the trading environment to remain challenging but our resilient business model has shown the Group is well placed to face future challenges. As such I am confident that we have the right brands, people and focus on efficiency to enable the continued delivery of value to shareholders.

Nicandro Durante
24 February 2016

REGIONAL REVIEW

This review presents the underlying performance of the regions and markets, at constant rates of exchange. However, as explained on page 19, the Group does not adjust for transactional gains or losses in profit from operations which are generated by exchange rate movements. The performance also excludes the adjusting items, explained on pages 21 to 23, which are lower as 2014 included a one off charge in relation to the Flintkote settlement.

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

	Adjusted profit from operations			Cigarette volume	
	2015 Constant rates £m	**2015 Current rates £m**	2014 As reported £m	**2015 Bns**	2014 Bns
Asia-Pacific	**1,546**	**1,469**	1,548	**198**	197
Americas	**1,426**	**1,169**	1,286	**124**	131
Western Europe	**1,249**	**1,146**	1,189	**112**	112
EEMEA	**1,399**	**1,208**	1,380	**229**	227
Total	**5,620**	**4,992**	5,403	**663**	667
Total tobacco volume				**689**	694

The Group delivered a strong performance in 2015, increasing market share and achieving growth in all of the Global Drive Brands. A very good financial performance was affected by continued adverse exchange rate movements, with an adverse translational impact of approximately 12%.

Revenue in constant currency was 5.4% higher driven by a price mix of 5.9%, as strong pricing was partly offset by adverse geographic mix and the growth of the lower priced segment in some markets. At current rates of exchange, revenue decreased by 6.2%, reflecting the adverse effects of currency movements on reported results.

Reported profit from operations was 0.2% higher at £4,557 million, reflecting the impact of foreign exchange movements on the reported results, being partly offset by the charge in 2014 related to non-tobacco litigation that does not repeat. Adjusted profit from operations (see page 20) declined by 7.6%, but excluding the translational effect of exchange rate movements, adjusted profit from operations was £5,620 million, an increase of 4.0%. Excluding the transactional foreign exchange impact on the cost of items such as leaf, filter tow and wrapping materials, adjusted operating profit would have increased by approximately 10%.

Return on capital employed, calculated excluding the Group's investments in associates, fell to 33% from 35% in 2014. This decrease was largely driven by the investments undertaken in the year, including TDR in Croatia and CHIC in Poland, and the receipt of £963 million in relation to the Franked Investment Income Group Litigation Order (FII GLO), as described on page 34.

Group cigarette volume from subsidiaries was 663 billion, a decrease against the previous year of 0.5% (or 0.8% down excluding the acquisition of TDR in Croatia). Total tobacco volume was lower by 0.8%. The decline in cigarette volume was largely due to market contraction in Brazil, Italy, Russia, Pakistan, Malaysia and South Korea, which was partly offset by higher Group volume in Turkey, Bangladesh, Iran, Kazakhstan, Ukraine and Denmark. The Group increased market share by over 40 bps in its Key Markets, notably in South Korea, Indonesia, Russia, Japan, Turkey, France, Pakistan, Bangladesh, Mexico, Malaysia, Ukraine, Kazakhstan and the UK.

Global Drive Brand volume was higher by 8.5%, with all the brands increasing volume and contributing to the strong share growth of 120 bps. Dunhill market share grew by 30 bps as volume increased by 6.0%, driven mainly by Indonesia and South Africa, offsetting lower volume in South Korea and Malaysia. Kent volume grew by 3.3%, with market share in line with prior year, as volume growth in Iran, Turkey, Japan and Chile was partly offset by lower volume in Russia and Ukraine driven by market contraction.

Lucky Strike volume was up by 3.6%, driven by growth in Belgium, France and Chile offsetting lower volume in Russia and Argentina, resulting in an improvement in market share of 10 bps. Pall Mall's market share grew by 10 bps with volume higher by 0.4% as good performances in Pakistan, Venezuela, Poland and Mexico were partly offset by the migration to Rothmans in Italy. Rothmans' strong growth of 46.5% was driven by Russia, Ukraine, Turkey, Italy, Kazakhstan, Australia, Algeria and the UK, with market share significantly higher, growing by 70 bps.

Other international brands declined by 6.8%, as growth in State Express 555 and Shuang Xi were more than offset by lower volume in Peter Stuyvesant, JPGL, Craven A and Vogue.

Innovations account for over 26% of our cigarette volume and in 2015 grew by 14% driven by the success of Tubes (mainly Kent) and the "slimmer" variants (particularly Rothmans).

The performances of the Group's Key Markets are discussed in the regions where they are reported. This discussion excludes certain markets, identified as new investment or growth markets, which currently do not materially contribute to the Group profit or volume.

Asia-Pacific: adjusted profit at constant rates of exchange was in line with 2014

Adjusted profit, at current rates of exchange, was down by £79 million to £1,469 million as strong profit performances in Pakistan, Bangladesh, New Zealand, Sri Lanka and Vietnam were offset by a challenging environment in Australia and adverse foreign exchange rates in a number of markets. At constant rates of exchange, adjusted profit fell by £2 million or 0.1%. Volume was marginally ahead of 2014 at 198 billion, as increases in Bangladesh, Vietnam, Indonesia and Japan were offset by Pakistan, Malaysia and South Korea, where lower volume was due to market decline.

Country	Performance at constant rates of exchange
Australia	Volume fell due to market contraction. Excise led-price increases, a challenging pricing environment and continued high prevalence of illicit trade led to down-trading and a significant reduction in profit. Market share was flat.
Malaysia	Profit was stable, as the introduction of sales tax (GST) and large ad hoc excise-led price increases, were offset by a reduction in industry volume, which was partly due to an increase in illicit trade. Market share was up driven by Peter Stuyvesant.
Japan	Excellent growth in market share was driven by a strong performance by Kent, supported by innovations. Profit was down mainly due to the adverse exchange rate impact on cost of sales, which was partly mitigated by productivity savings.
New Zealand	Profit was higher as pricing offset lower volume. Rothmans performed strongly leading to an increase in market share.
Bangladesh	Profit continued to increase strongly, driven by higher volume, significant market share growth and higher pricing.
Pakistan	High excise-driven pricing led to market contraction and an increase in illicit trade. Volume decline was lower than the market leading to an increase in market share, particularly in Pall Mall. The roll-over of prior year pricing and cost efficiencies drove profit significantly higher.
Vietnam	Volume was up, in line with the industry. Profit was higher due to increased volume, pricing and an improvement in mix.
South Korea	Market share grew strongly, driven by Dunhill and Vogue. Volume declined, as a result of significant industry contraction following high excise-driven price increases, leading to lower profit.

Country	Performance at constant rates of exchange
Indonesia	Volume and market share were up and profitability improved as Dunhill continued to grow, driving an improvement in mix and offsetting the decline in the local brands.
Taiwan	Market share was higher driven by Pall Mall. Good pricing was offset by marketing investment leading to a small decline in profit.
Philippines	Market share increased driven by Pall Mall, leading to an improvement in profitability.

Americas: adjusted profit at constant rates of exchange increased by £140 million or 10.9%

Adjusted profit, at current rates of exchange, declined by £117 million to £1,169 million, mainly due to exchange rate movements in Brazil, Canada and Venezuela. At constant rates, adjusted profit rose by £140 million, or 10.9%, driven by good performances from Canada, Mexico, Venezuela and Chile. Volume was lower by 5.2% at 124 billion, mainly due to Brazil, Argentina, Chile and Canada, partially offset by higher volume in Mexico.

Country	Performance at constant rates of exchange
Brazil	Dunhill and Minister performed well with higher market share, but were more than offset by the rest of the portfolio. Market contraction, largely due to the deterioration in the economic environment led to lower volume and a reduction in profit.
Canada	Profit grew strongly driven by good pricing and cost reductions, offsetting lower volume. Market share fell, despite growth in Pall Mall.
Chile	Strong profit growth was due to good pricing and up-trading to capsule offers offsetting lower volume and the effect of adverse exchange rates on cost of sales. Kent, Lucky Strike and Pall Mall all grew market share.
Venezuela	Profit was higher as significant pricing was required to offset the combined effects of local inflation and the devaluation of the Bolivar following the introduction of the SIMADI exchange rate mechanism. Volume was marginally lower.
Mexico	Market share was up, driven by the continued growth in Pall Mall and Lucky Strike. Profit was higher driven by pricing and higher volume.
Colombia	Market share growth was partly driven by Kool and Lucky Strike, with volume flat despite industry decline. Profit was up as pricing offset the impact of adverse foreign exchange on cost of sales.
Argentina	Pricing more than offset the impact of lower volume and led to higher profit. Lucky Strike grew market share, continuing to perform well in the premium segment.

Western Europe: adjusted profit at constant rates of exchange increased by £60 million or 5.1%

Adjusted profit, at current rates of exchange, declined by £43 million to £1,146 million, largely reflecting the devaluation of the euro. At constant rates, adjusted profit was higher by £60 million or 5.1% with good performances in a number of markets including Denmark, Germany and Romania. This was partly offset by the effect of lower volume in Italy and Netherlands. Total cigarette volume was up by 0.5% to 112 billion but, excluding the acquisition of TDR, cigarette volume would have declined by 1.1%. Fine Cut volume was lower by 3.9% at 20 billion sticks equivalent.

Country	Performance at constant rates of exchange
Germany	Volume and market share were higher, driven by Lucky Strike and Pall Mall, which, coupled with pricing, led to an increase in profit. Fine Cut volume was lower.
Switzerland	Profit was up as pricing offset lower volume and a decline in market share.

Regional review cont…

Country	Performance at constant rates of exchange
Italy	The migration of Pall Mall to Rothmans progressed very well, with an increase in the brands' combined market share. Total volume fell, with profit down partly due to increased marketing investment.
Romania	Market share grew, driven by Pall Mall and Dunhill, consolidating the Group's leadership position. Good pricing and an increase in volume drove profit higher.
France	Volume was higher as Lucky Strike continued to perform very well, driving an increase in total market share. Profit fell partly due to down-trading and increased marketing investment.
Denmark	Volume and profit were higher following the trade destocking in 2014. Market share declined driven by competitive pricing activity at the low end of the market.
Netherlands	Market share was higher due to the good performance of Lucky Strike and Pall Mall. Industry decline led to lower volume and a reduction in profit.
Belgium	Profit was stable as pricing offset lower volume. Market share declined as growth in Lucky Strike was more than offset by the rest of the local portfolio.
United Kingdom	Rothmans drove an increase in market share, with profit higher as good pricing offset marginally lower volume, due to industry decline.
Spain	Profit was flat as pricing was offset by lower volume and a reduction in market share.
Poland	Profitability improved as pricing more than offset a fall in volume, which was in part due to further industry contraction. Pall Mall continues to demonstrate excellent momentum, with an increase in market share.

Eastern Europe, Middle East and Africa: adjusted profit at constant rates of exchange increased by £19 million or 1.3%

Adjusted profit, at current rates of exchange, decreased by £172 million to £1,208 million. Good pricing across the region and strong profit growth in a number of markets was offset by the effect of currency devaluation, notably in Russia, Nigeria and Ukraine. At constant rates of exchange, profit would have increased by £19 million or 1.3%. Volume was 1.1% higher at 229 billion, with growth in a number of markets including Turkey, Iran, Kazakhstan and Ukraine offsetting lower volume in Egypt, Russia, Nigeria and South Africa.

Country	Performance at constant rates of exchange
Russia	Market share continued to grow, driven by a strong performance by Rothmans. Industry volume decline was due to excise-led price increase, with the Group's volume falling at a lower rate than the market. Pricing partially offset the significant adverse effect of devaluation on cost of sales, leading to a decrease in profit.
South Africa	Market share was down despite good growth from Benson & Hedges, following the launch in 2014, and Pall Mall. Lower volume and down-trading were offset by pricing and cost savings, with profit stable.
GCC	Higher volume, driven by JPGL and Rothmans, and the full year effect of pricing taken in 2014 more than offset negative mix to deliver an increase in profit. Total market share declined.
Nigeria	Profit was down due to the effect of adverse exchange rates on cost of sales and a reduction in volume, which was driven by market contraction. Market share was up.
Iran	Kent continued to perform extremely well, with higher volume driving an increase in profit despite a change in excise that was partly borne by the industry.
Ukraine	Geopolitical instability continued to impact performance, with a significant deterioration in currency and intense price competition leading to a decline in profit. Volume was up, driven by Rothmans. Market share grew strongly.
Turkey	Higher volume and strong market share growth were driven by Kent and Rothmans. Profit fell due to the continued part absorption of excise.

Regional review cont…

Country	Performance at constant rates of exchange
Egypt	Volume, market share and profitability declined, due to down-trading following the change in the excise regime in 2014.
Kazakhstan	Rothmans drove an increase in volume and market share. Profitability improved as higher volume more than offset the effect of down-trading.
Algeria	Excellent market share growth drove an increase in volume and profit.

The following includes a summary of the analysis of revenue, adjusted profit from operations, share of post-tax results of associates and joint ventures and adjusted diluted earnings per share, as reconciled between reported information and non-GAAP management information on page 20.

REGIONAL INFORMATION

For the year ended 31 December	Asia-Pacific	Americas	Western Europe	EEMEA	Total
SUBSIDIARIES					
Volume (cigarette billions)					
2015	**198**	**124**	**112**	**229**	**663**
2014	197	131	112	227	667
Change	+0.1%	-5.2%	+0.5%	+1.1%	-0.5%
Change (organic*)	+0.1%	-5.2%	-1.1%	+1.1%	-0.8%
Revenue (£m)					
2015 (at constant)	**3,874**	**3,340**	**3,476**	**4,030**	**14,720**
2015 (at current)	**3,773**	**2,720**	**3,203**	**3,408**	**13,104**
2014	3,873	2,990	3,359	3,749	13,971
Change (at constant)	0.0%	+11.7%	+3.5%	+7.5%	+5.4%
Change (at current)	-2.6%	-9.0%	-4.6%	-9.1%	-6.2%
Adjusted profit from operations (£m)					
2015 (at constant)	**1,546**	**1,426**	**1,249**	**1,399**	**5,620**
2015 (at current)	**1,469**	**1,169**	**1,146**	**1,208**	**4,992**
2014	1,548	1,286	1,189	1,380	5,403
Change (at constant)	-0.1%	+10.9%	+5.1%	+1.3%	+4.0%
Change (at current)	-5.2%	-9.1%	-3.6%	-12.5%	-7.6%
Operating margin based on adjusted profit (%)					
2015 (at current)	**38.9%**	**43.0%**	**35.8%**	**35.4%**	**38.1%**
2014	40.0%	43.0%	35.4%	36.8%	38.7%

All variances quoted above are based upon absolute numbers.
* Organic change excludes volume contribution by TDR, acquired in 2015. No adjustment to exclude TDR from revenue or adjusted profit is presented as the results are immaterial to the regional/Group financial results.

REGIONAL INFORMATION

For the year ended 31 December	Asia-Pacific	Americas	Western Europe	EEMEA	Total
ASSOCIATES AND JOINT VENTURES					
Share of post-tax results of associates and joint ventures (£m)					
2015 (at current)	302	933	-	1	1,236
2014	291	424	-	4	719
Change	+3.8%	+120.0%	-	-75.0%	+71.9%
Share of adjusted post-tax results of associates and joint ventures (£m)					
2015 (at constant)	278	610	-	1	889
2015 (at current)	286	656	-	1	943
2014	277	431	-	4	712
Change (at constant)	+0.4%	+41.5%	-	-75.0%	+24.7%
Change (at current)	+3.3%	+52.2%	-	-75.0%	+32.3%

GROUP

For the year ended 31 December	Total
Underlying tax rate of subsidiaries (%)	
2015	**30.5%**
2014	30.6%
Adjusted diluted earnings per share (pence)	
2015 (at constant)	**229.1**
2015 (at current)	**208.4**
2014	208.1
Change (at constant)	+10.1%
Change (at current)	+0.1%
Return on capital employed (%) – excluding associates*	
2015	**33%**
2014	35%

* The calculation for "Return on capital employed" was changed in 2015, with 2014 restated accordingly, to exclude the Group's Investments in Associates and Joint Ventures from the underlying assets, aligning the return (adjusted profit from operations) to the assets (average total assets less Investment in Associates and Joint Ventures, less average current liabilities).

NET FINANCE INCOME/(COSTS)

Net finance income was £62 million, compared to a cost of £417 million in 2014. The movement is principally due to a deemed gain related to the investment in RAI, as described below. Net adjusted finance costs increased as the higher level of borrowing more than offset an overall reduction in the underlying cost to service the debt.

Net finance income/(costs) comprise:

	2015 £m	2014 £m
Finance costs	**(584)**	(484)
Finance income	**646**	67
	62	(417)
Comprising:		
Interest payable	**(606)**	(588)
Interest and dividend income	**79**	67
Net impact of fair value and exchange	**589**	104
- fair value changes - derivatives	**245**	154
- option costs and fees related to the funding of the acquisition of non-controlling interest in Souza Cruz, and investment in RAI	**(88)**	-
- Deemed gain related to the investment in RAI	**601**	-
- exchange differences	**(169)**	(50)
	62	(417)
Adjusting items:		
Option cost and fees, see below	**104**	-
Deemed gain on investment in RAI, see below	**(601)**	-
Interest related to Franked Investment Income Group Litigation Order	**8**	-
Net adjusted finance cost	**(427)**	**(417)**

The Group incurred costs of £104 million in relation to financing activities, which include costs in relation to the acquisition of the non-controlling interest in the Group's Brazilian subsidiary, Souza Cruz S.A. and the Group's activities to maintain the current ownership in RAI following its acquisition of Lorillard Inc. These activities are described on page 10.

The Group's investment of US$4.7 billion in cash in RAI has realised a deemed gain of US$931 million (£601 million), taken through net finance costs. This has arisen as the contract to acquire shares is deemed to be a financial instrument and has been fair valued through profit and loss, in compliance with IAS 39. The deemed gain reflects the difference between the fixed price paid by the Group to RAI and the market value of RAI shares on the day of the transaction.

As described on page 34, the Group received £963 million from HM Revenue & Customs in relation to the FII GLO. The payment was received subject to the on-going appeals process and was made with no admission of liability. Any future repayment by the Group is subject to interest and, as any recognition of income will be deemed to be adjusting (due to size), interest of £8 million has been accrued and treated as an adjusting item.

The above have been included in the adjusted earnings per share calculation on page 28.

RESULTS OF ASSOCIATES

The Group's share of post-tax results of associates increased by £517 million, or 72%, to £1,236 million. The Group's share of the adjusted post-tax results of associates increased by 32% to £943 million, with a rise of 25% to £889 million at constant rates of exchange.

The adjusted contribution from RAI increased by 53% to £652 million, reflecting the strong performance of RAI in the year, following the acquisition of Lorillard Inc. in June 2015 and subsequent divestiture of certain assets to ITG Brands LLC. At constant rates of exchange this would have been an increase of 42%. The Group's adjusted contribution from its main associate in India, ITC, was £280 million, up 3.6%. At constant rates of exchange, the contribution would have been 1.1% higher than last year.

See pages 22 and 23 for the adjusting items.

TAXATION

	2015	2014
	£m	£m
UK		
- current year tax	**5**	-
Overseas		
- current year tax expense	**1,317**	1,439
- adjustment in respect of prior periods	**7**	11
Current tax	**1,329**	1,450
Deferred tax	**4**	5
	1,333	1,455
Adjusting items (see below)	**58**	69
Adjusted tax charge	**1,391**	1,524

The tax rates in the income statement of 22.8% in 2015 and 30.0% in 2014 are affected by the inclusion of the share of associates' and joint ventures' 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 28 was 30.5% in 2015 and 30.6% in 2014. The slight decrease is mainly due to a change in the mix of profits.

IFRS requires entities to provide deferred taxation on the undistributed earnings of associates and joint ventures. The Group's share of the gain on the divestiture of intangibles and other assets by RAI to ITG Brands LLC, a subsidiary of Imperial Tobacco Group PLC, is £371 million. Given that the profit on this item is recognised as an adjusting item by the Group, the additional deferred tax charge of £22 million on the potential distribution of these undistributed earnings has also been treated as adjusting.

The adjusting tax item also includes £80 million (2014: £69 million) in respect of the tax on adjusting items, as described on pages 21 to 23. Please refer to page 34 for the FII GLO update.

FREE CASH FLOW AND NET DEBT

In the alternative cash flow presented on page 24, the operating cash flow decreased by £325 million, or 7%, to £4,583 million, reflecting the growth in underlying operating performance at constant currency being more than offset by adverse exchange movements. Free cash flow was higher by £974 million or 39%, at £3,481 million as the receipt related to the FII GLO case, as described on page 34 and lower cash paid in the year in respect of Flintkote and Fox River which, combined with a reduction in tax paid, offset higher net interest paid, higher outflows for restructuring costs and the deposit in relation to the Quebec Class Action (£55 million, or CAD $108 million).

The conversion of adjusted operating profit to operating cash flow remained strong at 92% (2014: 91%), with the ratio of free cash flow per share to adjusted diluted earnings per share increasing to 90% from 64% in 2014 as the receipt in relation to FII GLO combined with lower cash costs related to non-tobacco related litigation (Flintkote and Fox River).

Closing net debt at £14,794 million was up £4,629 million from £10,165 million as at 31 December 2014 as the Group's investment activities described below more than offset the strong cash flow generation.

The Group's alternative cash flow statement is shown on page 24 and explained on page 19 under non-GAAP measures.

INVESTMENT IN RAI

On 12 June 2015, RAI completed its acquisition of Lorillard Inc. and related divestiture transactions to ITG Brands LLC, a subsidiary of Imperial Tobacco Group PLC, after receiving the required regulatory approval. At the same time, the Group invested US$4.7 billion (£3.0 billion) of cash in RAI to maintain its 42% equity position in the enlarged business.

The Group has recognised a deemed gain of US$931 million (£601 million), as part of the cost of investment. This has arisen as the contract to acquire shares is deemed to be a financial instrument and was fair valued through the profit and loss, in compliance with IAS 39. This has been treated as an adjusting item, in line with the Group's policy as described on page 19. Goodwill of US$529 million (£336 million) has also been recognised, being the difference between the Group's share of the net assets acquired by RAI and the deemed fair value of the consideration paid.

RAI recognised a gain on divestiture of assets of US$3,288 million. The Group's share of this net gain amounted to £371 million (net of tax). This has been treated as an adjusting item, in line with the Group's policy as described on page 19.

PUBLIC TENDER OFFER FOR SOUZA CRUZ S.A.

On 16 October 2015, the Group announced that it had concluded the auction related to its public tender offer in Brazil to acquire up to all of the 24.7% of Souza Cruz shares not currently owned by the Group and to delist the company.

As a result of the auction, the Group acquired 342,956,819 shares at a price of R$27.20 per share (the Offer Price), representing 22.4% of Souza Cruz. The Group's total ownership of Souza Cruz increased to 97.7% following the auction. At the Offer Price, the value of the 24.7% free float was approximately £1.7 billion. Given the level of acceptances at the auction, Souza Cruz cancelled its registration as a publicly listed company.

Subsequent to the auction the Group continued to acquire outstanding minority shares at the Offer Price (plus interest) and as at 31 December 2015 the Group owned 99.1% of Souza Cruz. The compulsory acquisition of the remaining minority shares was approved on 5 February 2016, with Souza Cruz effectively becoming a wholly-owned subsidiary at that date.

TDR - CROATIA

On 30 September 2015, the Group completed its previously announced acquisition of TDR d.o.o. and other tobacco and retail assets (TDR) from Adris Grupa d.d. (Adris) for a total enterprise value of €550 million. The purchase price is subject to the final agreement of adjustments for working capital and certain liabilities with the vendors and part of the consideration is contingent upon certain targets being met post acquisition, including the retention of key customers. Provisional goodwill has been recognised of £116 million.

INVESTMENT IN NEXT GENERATION PRODUCTS

The Group concluded the previously announced acquisition of the CHIC Group. The acquisition of CHIC provides the Group with scale and market reach, via over 800 points of sale in Poland, a number of leading Polish e-cigarette brands, a dedicated e-liquids production facility and a modern research and development centre.

During 2015, the Group also announced the agreement of a vapour products technology-sharing term sheet with R.J. Reynolds Tobacco Company (RJRTC), a subsidiary of the Group's associate RAI. This will provide a framework for collaboration and mutual cross-licensing of the parties' vapour product technologies through 2022.

IMPERIAL TOBACCO CANADA – QUEBEC CLASS ACTION

Following the decision by the Quebec Court of Appeal to uphold the Order for Security, of which the Group's subsidiary Imperial Tobacco Canada's (ITCAN) share is CAD $758 million (£370 million), on 30 December 2015 ITCAN made the first of up to seven quarterly deposits (£55 million, CAD $108 million) to the Court escrow account as required by the judgement. ITCAN continues to retain strong legal grounds to appeal the original judgement, with the hearing scheduled for November 2016.

No charge against profit has been made with regards to the deposit, as ITCAN continues to assess that the deposits are fully recoverable upon a successful appeal of the original judgement.

RESPONSE TO ALLEGATIONS REGARDING STANDARDS OF BUSINESS CONDUCT

Towards the end of 2015, a number of allegations were made regarding historic misconduct in Africa. We take these allegations extremely seriously. Although we were aware of and had looked into some of the allegations in the past, given the high standards to which we hold ourselves and the number and nature of the allegations of which the Group is now aware, the Group has appointed an external law firm to conduct a full investigation. We have also informed the Serious Fraud Office of our approach and are liaising with them.

All our 50,000 employees are required to understand and abide by our Standards of Business Conduct. We will not tolerate corruption in our business anywhere in the world.

RISKS AND UNCERTAINTIES

The Board's assessment of the principal risks and uncertainties facing the Group has remained broadly unchanged over the past year, particularly with regard to the principal risks included in Marketplace, Excise and tax, Operations, Regulation and Litigation risk factors.

The Board also considered the risks associated with the inability to recruit required talent and the loss of existing talent. The impact of the risk has been increased to reflect the challenge posed by negative perceptions of the sustainability and corporate reputation of a tobacco business and is now listed as a principal risk facing the business.

The Board has reassessed the previously reported risks associated with the Group's revised operating model and single IT operating system. In view of the progress of deployment of the single IT operating system, the Board considers that a combined risk, focussing on sustainability and benefits realisation describes more accurately the context of the current risk. As such the risks have been merged into a new combined risk, being failure to achieve sustainability of the operating model and its benefits. However this is not considered to be a principal risk.

In addition, the Board has considered the foreign exchange rate exposure risk. An assessment of the current exposure to transactional foreign exchange rate risk has resulted in an increase to the risk rating.

The risk of failure to lead the development of Next Generation Products has also been removed from the principal risk factors as progress has been made in several areas which mitigates the risk.

A solvency and liquidity risk has been disclosed as its assessment underpins our Viability Statement, which will be shown in the Annual Report and Accounts 2015 on page 38, although the mitigation plans reduce the likelihood of the risk occurring.

Full details of all principal risks will be included in the Annual Report for the year ended 31 December 2015.

GOING CONCERN

A description of the Group's business activities, its financial position, cash flows, liquidity position, facilities and borrowings position, together with the factors likely to affect its future development, performance and position, are set out in this announcement. Further information will be provided in the Strategic Report and in the notes to the financial statements, all of which will be included in the 2015 Annual Report.

The Group has, at the date of this announcement, sufficient existing financing available for its estimated requirements for at least the next 12 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 current financial conditions and the general outlook in the global economy.

After reviewing the Group's annual budget, plans and financing arrangements for the next three years, the Directors consider that the Group has adequate resources to continue operating and that it is therefore appropriate to continue to adopt the going concern basis in preparing the Annual Report.

BOARD CHANGES

The following changes to the Board will take effect from the conclusion of the Annual General Meeting on 27 April 2016:

- Karen de Segundo (Chair of the Corporate Social Responsibility Committee and a member of the Nominations Committee) will be retiring as a Non-Executive Director, having served eight years on the Board; and

- Dr Richard Tubb (member of the Corporate Social Responsibility and Nominations Committees) will retire from the Board, having been a Non-Executive Director since January 2013.

DIRECTORS' RESPONSIBILITY STATEMENT

The responsibility statement below has been prepared in connection with the company's full Annual Report for the year ended 31 December 2015. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with FRS 101 and IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group respectively; and
- the Directors' Report and the Strategic Report include a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the Board of Directors on 24 February 2016 and is signed on its behalf by:

Richard Burrows Chairman	Ben Stevens Finance Director

24 February 2016

ENQUIRIES:

INVESTOR RELATIONS:		**PRESS OFFICE:**	
Mike Nightingale	020 7845 1180	Will Hill / Anna Vickerstaff	020 7845 2888
Rachael Brierley	020 7845 1519		
Sabina Marshman	020 7845 1781		

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:
Dial-in number: +44 20 3139 4830
Passcode: 95975895#

Conference Call Playback Facility

A replay of the conference call will also be available from 1pm for 48 hours.
Dial-in number: +44 20 3426 2807
Passcode: 660261#

GROUP INCOME STATEMENT

For the year ended 31 December

	2015	2014
	£m	£m
Gross turnover (including duty, excise and other taxes of £27,896 million (2014: £28,535 million))	**41,000**	42,506
Revenue	**13,104**	13,971
Raw materials and consumables used	**(3,217)**	(3,088)
Changes in inventories of finished goods and work in progress	**184**	58
Employee benefit costs	**(2,039)**	(2,194)
Depreciation, amortisation and impairment costs	**(428)**	(523)
Other operating income	**225**	178
Other operating expenses	**(3,272)**	(3,856)
Profit from operations	**4,557**	4,546
Analysed as:		
– adjusted profit from operations	**4,992**	5,403
– restructuring and integration costs	**(367)**	(452)
– amortisation of trademarks and similar intangibles	**(65)**	(58)
– Fox River	**-**	27
– Flintkote	**(3)**	(374)
	4,557	4,546
Net finance income/(costs)	**62**	(417)
Finance income	**646**	67
Finance costs	**(584)**	(484)
Share of post-tax results of associates and joint ventures	**1,236**	719
Analysed as:		
– adjusted share of post-tax results of associates and joint ventures	**943**	712
– issue of shares and change in shareholding	**22**	14
– gain on disposal of assets	**371**	-
– other (see page 23)	**(100)**	(7)
	1,236	719
Profit before taxation	**5,855**	4,848
Taxation on ordinary activities	**(1,333)**	(1,455)
Profit for the year	**4,522**	3,393
Attributable to:		
Owners of the parent	**4,290**	3,115
Non-controlling interests	**232**	278
	4,522	3,393
Earnings per share		
Basic	**230.9p**	167.1p
Diluted	**230.3p**	166.6p
Adjusted diluted	**208.4p**	208.1p

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

The accompanying notes on pages 8 to 10 and 19 to 35 form an integral part of this condensed consolidated financial information.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	2015 **£m**	2014 £m
Profit for the year (page 13)	**4,522**	3,393
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:	**(849)**	(327)
Differences on exchange		
– subsidiaries	**(1,006)**	(539)
– associates	**336**	113
Cash flow hedges		
– net fair value (losses)/gains	**(99)**	57
– reclassified and reported in profit for the year	**15**	(67)
– reclassified and reported in net assets	**(45)**	8
Available-for-sale investments		
– net fair value gains	**15**	15
– reclassified and reported in profit for the year	**(10)**	-
Net investment hedges		
– net fair value (losses)/gains	**(118)**	2
– differences on exchange on borrowings	**42**	60
Tax on items that may be reclassified	**21**	24
Items that will not be reclassified subsequently to profit or loss:	**263**	(458)
Retirement benefit schemes		
– net actuarial gains/(losses) in respect of subsidiaries	**283**	(428)
– surplus recognition and minimum funding obligations in respect of subsidiaries	**-**	7
– actuarial gains/(losses) in respect of associates net of tax	**3**	(124)
Tax on items that will not be reclassified	**(23)**	87
Total other comprehensive income for the year, net of tax	**(586)**	(785)
Total comprehensive income for the year, net of tax	**3,936**	2,608
Attributable to:		
Owners of the parent	**3,757**	2,349
Non-controlling interests	**179**	259
	3,936	2,608

The accompanying notes on pages 8 to 10 and 19 to 35 form an integral part of this condensed consolidated financial information.

GROUP STATEMENT OF CHANGES IN EQUITY

At 31 December

2015

	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 2015	**507**	**3,923**	**(498)**	**1,578**	**5,510**	**304**	**5,814**
Total comprehensive income for the year (page 14)	**-**	**-**	**(796)**	**4,553**	**3,757**	**179**	**3,936**
Profit for the year	**-**	**-**	**-**	**4,290**	**4,290**	**232**	**4,522**
Other comprehensive income for the year	**-**	**-**	**(796)**	**263**	**(533)**	**(53)**	**(586)**
Employee share options							
– value of employee services	**-**	**-**	**-**	**50**	**50**	**-**	**50**
– proceeds from shares issued	**-**	**4**	**-**	**-**	**4**	**-**	**4**
Dividends and other appropriations							
– ordinary shares	**-**	**-**	**-**	**(2,770)**	**(2,770)**	**-**	**(2,770)**
– to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**(238)**	**(238)**
Purchase of own shares							
– held in employee share ownership trusts	**-**	**-**	**-**	**(46)**	**(46)**	**-**	**(46)**
Non-controlling interests – acquisitions	**-**	**-**	**-**	**(1,642)**	**(1,642)**	**(107)**	**(1,749)**
Other movements	**-**	**-**	**-**	**31**	**31**	**-**	**31**
Balance at 31 December 2015	**507**	**3,927**	**(1,294)**	**1,754**	**4,894**	**138**	**5,032**

2014

	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 2014	507	3,919	(190)	2,398	6,634	301	6,935
Total comprehensive income for the year (page 14)	-	-	(308)	2,657	2,349	259	2,608
Profit for the year	-	-	-	3,115	3,115	278	3,393
Other comprehensive income for the year	-	-	(308)	(458)	(766)	(19)	(785)
Employee share options							
– value of employee services	-	-	-	66	66	-	66
– proceeds from shares issued	-	4	-	1	5	-	5
Dividends and other appropriations							
– ordinary shares	-	-	-	(2,712)	(2,712)	-	(2,712)
– to non-controlling interests	-	-	-	-	-	(260)	(260)
Purchase of own shares							
– held in employee share ownership trusts	-	-	-	(49)	(49)	-	(49)
– share buy-back programme	-	-	-	(800)	(800)	-	(800)
Non-controlling interests – acquisitions	-	-	-	(4)	(4)	-	(4)
Non-controlling interests – capital injection	-	-	-	-	-	4	4
Other movements	-	-	-	21	21	-	21
Balance at 31 December 2014	507	3,923	(498)	1,578	5,510	304	5,814

The accompanying notes on pages 8 to 10 and 19 to 35 form an integral part of this condensed consolidated financial information.

GROUP BALANCE SHEET

At 31 December

	2015 £m	2014 £m
Assets		
Non-current assets		
Intangible assets	**10,436**	10,804
Property, plant and equipment	**3,021**	3,004
Investments in associates and joint ventures	**6,938**	2,400
Retirement benefit assets	**408**	40
Deferred tax assets	**326**	311
Trade and other receivables	**248**	153
Available-for-sale investments	**37**	36
Derivative financial instruments	**287**	287
Total non-current assets	**21,701**	17,035
Current assets		
Inventories	**4,247**	4,133
Income tax receivable	**74**	57
Trade and other receivables	**3,266**	2,768
Available-for-sale investments	**35**	50
Derivative financial instruments	**209**	274
Cash and cash equivalents	**1,963**	1,818
	9,794	9,100
Assets classified as held-for-sale	**20**	32
Total current assets	**9,814**	9,132
Total assets	**31,515**	26,167

The accompanying notes on pages 8 to 10 and 19 to 35 form an integral part of this condensed consolidated financial information.

GROUP BALANCE SHEET - continued

At 31 December

	2015 £m	2014 £m
Equity		
Capital and reserves		
Share capital	**507**	507
Share premium, capital redemption and merger reserves	**3,927**	3,923
Other reserves	**(1,294)**	(498)
Retained earnings	**1,754**	1,578
Owners of the parent	**4,894**	5,510
after deducting		
– cost of treasury shares	**(5,049)**	(5,073)
Non-controlling interests	**138**	304
Total equity	**5,032**	5,814
Liabilities		
Non-current liabilities		
Borrowings	**14,806**	9,779
Retirement benefit liabilities	**653**	781
Deferred tax liabilities	**563**	495
Other provisions for liabilities and charges	**296**	278
Trade and other payables	**1,029**	128
Derivative financial instruments	**130**	123
Total non-current liabilities	**17,477**	11,584
Current liabilities		
Borrowings	**2,195**	2,479
Income tax payable	**414**	430
Other provisions for liabilities and charges	**273**	210
Trade and other payables	**5,937**	5,524
Derivative financial instruments	**187**	126
Total current liabilities	**9,006**	8,769
Total equity and liabilities	**31,515**	26,167

The accompanying notes on pages 8 to 10 and 19 to 35 form an integral part of this condensed consolidated financial information.

GROUP CASH FLOW STATEMENT

For the year ended 31 December

	2015	2014
	£m	£m
Cash flows from operating activities		
Cash generated from operations (page 26)	**5,400**	4,634
Dividends received from associates	**593**	515
Tax paid	**(1,273)**	(1,433)
Net cash generated from operating activities	**4,720**	3,716
Cash flows from investing activities		
Interest received	**64**	61
Dividends received from investments	**-**	2
Purchases of property, plant and equipment	**(483)**	(529)
Proceeds on disposal of property, plant and equipment	**108**	62
Purchases of intangibles	**(118)**	(163)
Purchases of investments	**(99)**	(31)
Proceeds on disposals of investments	**45**	34
Proceeds from associate's share buy-back	**-**	94
Investment in associates	**(3,015)**	-
Acquisition of subsidiaries	**(493)**	-
Net cash used in investing activities	**(3,991)**	(470)
Cash flows from financing activities		
Interest paid	**(596)**	(571)
Interest element of finance lease rental payments	**(1)**	-
Capital element of finance lease rental payments	**(2)**	(2)
Proceeds from issue of shares to owners of the parent	**4**	4
Proceeds from the exercise of options over own shares held in employee share ownership trusts	**-**	1
Proceeds from increases in and new borrowings	**6,931**	1,967
Movements relating to derivative financial instruments	**201**	244
Purchases of own shares	**-**	(800)
Purchases of own shares held in employee share ownership trusts	**(46)**	(49)
Reductions in and repayments of borrowings	**(2,028)**	(1,300)
Dividends paid to owners of the parent	**(2,770)**	(2,712)
Purchases of non-controlling interests	**(1,677)**	(4)
Non-controlling interests – capital injection	**-**	4
Dividends paid to non-controlling interests	**(235)**	(249)
Net cash used in financing activities	**(219)**	(3,467)
Net cash flows generated from/(used in) operating, investing and financing activities	**510**	(221)
Differences on exchange	**(272)**	(63)
Increase/(Decrease) in net cash and cash equivalents in the year	**238**	(284)
Net cash and cash equivalents at 1 January	**1,492**	1,776
Net cash and cash equivalents at 31 December	**1,730**	1,492

The accompanying notes on pages 8 to 10 and 19 to 35 form an integral part of this condensed consolidated financial information.

The net cash outflows relating to adjusting items on pages 21 and 22, and related to the Quebec Class Action included in the above are £577 million, including £97 million related to interest (2014: £750 million with £nil related to interest). The receipt in relation to FII GLO in 2015 from HMRC is £963 million (2014: £nil), and is included in 'Cash generated from operations' as shown on page 26.

ACCOUNTING POLICIES AND BASIS OF PREPARATION

The condensed consolidated financial information has been extracted from the Annual Report, including the audited financial statements for the year ended 31 December 2015. This condensed consolidated financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

The Group has prepared its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

These 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 2014.

The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the date of these condensed consolidated financial statements. 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 statements. In the future, actual experience may deviate from these estimates and assumptions, which could affect these condensed consolidated financial statements as the original estimates and assumptions are modified, as appropriate, in the year 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 are reconciled to profit from operations and 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 that 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, adjusted share of post-tax results of associates and joint ventures and adjusted diluted earnings per share.

All adjustments to profit from operations and diluted earnings per share are explained in this announcement. See pages 21 to 23 and 28.

The Management Board, as the chief operating decision maker, reviews current and prior year segmental adjusted profit from operations of subsidiaries and joint operations, and adjusted post tax results of associates and joint ventures, at constant rates of exchange. This allows comparison of the Group's results, had they been translated at the previous year's average rates of exchange. The Group does not adjust for the transactional gains and losses in operations that are generated by exchange movements. However, for clarity the Group also gives a figure for growth in adjusted operating profit excluding both transactional and translational foreign exchange movements. As an additional measure to indicate the impact of the exchange rate movements on the Group results, the principal measure of adjusted diluted earnings per share is also shown at constant translation rates of exchange. See page 20.

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 on page 25. 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 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. These are shown on page 29.

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

REVENUE

	2015			2014
	Reported revenue £m	**Impact of exchange £m**	**Revenue at CC(1) £m**	Reported revenue £m
Asia-Pacific	**3,773**	**101**	**3,874**	3,873
Americas	**2,720**	**620**	**3,340**	2,990
Western Europe	**3,203**	**273**	**3,476**	3,359
EEMEA	**3,408**	**622**	**4,030**	3,749
Total	**13,104**	**1,616**	**14,720**	13,971

PROFIT FROM OPERATIONS AND DILUTED EARNINGS PER SHARE

	2015					2014		
	Reported Profit £m	**Adjusting items £m**	**Adjusted Profit £m**	**Impact of exchange £m**	**Adjusted Profit at CC[1] £m**	Reported Profit £m	Adjusting items £m	Adjusted Profit £m
Asia-Pacific	**1,361**	**108**	**1,469**	**77**	**1,546**	1,360	188	1,548
Americas	**1,082**	**87**	**1,169**	**257**	**1,426**	1,197	89	1,286
Western Europe	**990**	**156**	**1,146**	**103**	**1,249**	1,018	171	1,189
EEMEA	**1,127**	**81**	**1,208**	**191**	**1,399**	1,318	62	1,380
Total Region	**4,560**	**432**	**4,992**	**628**	**5,620**	4,893	510	5,403
Non-tobacco litigation:								
Fox River	**-**	**-**	**-**	**-**	**-**	27	(27)	-
Flintkote	**(3)**	**3**	**-**	**-**	**-**	(374)	374	-
Profit from Operations	**4,557**	**435**	**4,992**	**628**	**5,620**	4,546	857	5,403
Net finance income/(costs)	**62**	**(489)**	**(427)**	**(37)**	**(464)**	(417)	-	(417)
Associates and joint ventures	**1,236**	**(293)**	**943**	**(54)**	**889**	719	(7)	712
Profit before tax	**5,855**	**(347)**	**5,508**	**537**	**6,045**	4,848	850	5,698
Taxation	**(1,333)**	**(58)**	**(1,391)**	**(126)**	**(1,517)**	(1,455)	(69)	(1,524)
Non-controlling interest	**(232)**	**(3)**	**(235)**	**(26)**	**(261)**	(278)	(5)	(283)
Profit attributable to shareholders	**4,290**	**(408)**	**3,882**	**385**	**4,267**	3,115	776	3,891
Diluted number of shares (m)	**1,863**		**1,863**		**1,863**	1,870		1,870
Diluted earnings per share (pence)	**230.3**		**208.4**		**229.1**	166.6		208.1

Notes:
(1) CC: profit translated at constant rates of exchange. No adjustment is made for the transactional impact of currency movements on cost of sales, as described on page 19.

The Fox River credit in 2014 and the Flintkote charges in 2014 and 2015 have not been allocated to any segment as they neither relate to current operations nor to the tobacco business. They are presented separately from the segment reporting which is used to evaluate segmental performance and to allocate resources, and is reported to the chief operating decision maker on this basis.

ADJUSTING ITEMS INCLUDED IN PROFIT FROM OPERATIONS

Adjusting items are significant items in the profit from operations that individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance, as described on page 19. These items are separately disclosed as memorandum information on the face of the income statement and in the segmental analyses.

(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, including the relevant operating costs of implementing the new operating model. These costs represent additional expenses incurred that are not related to the normal business and day-to-day activities. The new operating model 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 started in the third quarter of 2012 and will take at least four years to fully roll out. These initiatives also include a review of the Group's manufacturing operations, supply chain, 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:

	2015	2014
	£m	£m
Employee benefit costs	**159**	223
Depreciation, amortisation and impairment costs	**26**	69
Other operating expenses	**228**	180
Other operating income	**(46)**	(20)
Total	**367**	452

Restructuring and integration costs in 2015 principally relate to the restructuring initiatives directly related to implementation of a new operating model and the cost of initiatives in respect of permanent headcount reductions and permanent employee benefit reductions in the Group. The costs also cover the factory closure and downsizing activities in Australia, certain costs related to the acquisitions undertaken (including TDR in Croatia) and restructurings in Indonesia, Canada, Switzerland and Germany.

Restructuring and integration costs in 2014 principally relate to the restructuring initiatives directly related to implementation of a new operating model and the cost of initiatives in respect of permanent headcount reductions and permanent employee benefit reductions in the Group. The costs also cover the factory closure and downsizing activities in Australia, Colombia and the Democratic Republic of Congo and restructurings in Argentina, Indonesia, Canada, Switzerland and Germany.

Other operating income in 2015 includes gains from the sale of land and buildings in Australia. In 2014, other operating income includes gains from the sale of land and buildings in Turkey, Uganda and the Democratic Republic of Congo.

(b) Amortisation of trademarks and similar intangibles

Acquisitions including TDR, Bentoel, Tekel and ST resulted in the capitalisation of trademarks and similar intangibles that are amortised over their expected useful lives, which do not exceed 20 years. The amortisation charge of £65 million (2014: £58 million) is included in depreciation, amortisation and impairment costs in the profit from operations.

Adjusting items included in profit from operations cont...

(c) Fox River

In 2011, a Group subsidiary provided £274 million in respect of claims in relation to environmental clean-up costs of the Fox River.

On 30 September 2014, a Group subsidiary, NCR, Appvion and Windward Prospects entered into a Funding Agreement with regard to the costs for the clean-up of Fox River. Based on this Funding Agreement, £17 million has been paid in 2015, which includes legal costs of £8 million (2014: £56 million, including legal costs of £7 million). The Fox River provision has been reviewed with no further change required in 2015, following a release in 2014 of £27 million.

(d) Flintkote

In September 2015, the settlement announced in 2014 of £374 million in connection with various legal cases related to a former non-tobacco business in Canada was finalised upon receipt of the approvals of certain courts in the United States. Legal costs of £3 million were incurred in the year.

ADJUSTING ITEMS INCLUDED IN NET FINANCE INCOME/(COST

Adjusting items are significant items in net financing costs which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance, as described on page 19.

The Group incurred costs of £104 million in relation to financing activities, which comprise costs on the proposed acquisition of the non-controlling interest in the Group's Brazilian subsidiary, Souza Cruz S.A. and the Group's activities to maintain the current ownership in RAI following its acquisition of Lorillard Inc.

The Group's investment of US$4.7 billion in cash in RAI has realised a deemed gain of US$931 million (£601 million). This has arisen as the contract to acquire shares is deemed to be a financial instrument and has been fair valued through profit and loss, in compliance with IAS 39. The deemed gain reflects the difference between the fixed price paid by the Group to RAI and the market value of RAI shares on the day of the transaction.

As described on page 34, the Group received £963 million from HM Revenue & Customs in relation to the FII GLO. The payment was received subject to the on-going appeals process and was made with no admission of liability. Any future repayment by the Group is subject to interest and, as any recognition of income will be deemed to be adjusting (due to size), interest of £8 million has been accrued and treated as an adjusting item.

ADJUSTING ITEMS INCLUDED IN SHARE OF POST-TAX RESULTS OF 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 28.

For the year ended 31 December 2015:

In 2015, the Group's interest in ITC Ltd. (ITC) decreased from 30.26% to 30.06% 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 £22 million, which is treated as a deemed partial disposal and included in the income statement.

RAI recognised a gain on the related divestiture of assets, following the Lorillard Inc. acquisition, of US$3,288 million. The Group's share of this net gain amounted to £371 million (net of tax).

Adjusting items included in share of post-tax results of associates and joint ventures cont…

RAI has also recognised amounts that have been combined in the table of adjusting items in the Group income statement and are shown as "other". This includes restructuring charges of US$223 million, the Group's share of which is £39 million (net of tax), and costs in respect of a number of Engle progeny lawsuits and other tobacco litigation charges that amounted to US$152 million, the Group's share of which is £26 million (net of tax). Also included are transaction costs of US$54 million and financing costs of US$60 million connected with the acquisition of Lorillard Inc., the Group's share of which is £12 million (net of tax) and £10 million (net of tax), respectively. Additionally, there is income of US$108 million related to the Non-Participating Manufacturer (NPM) Adjustment claims of the states no longer challenging the findings of non-diligence entered against them by an Arbitration Panel, the Group's share of which amounted to £18 million (net of tax). The remaining costs of US$99 million are primarily in respect of asset impairment and exit charges, the Group's share of which is £25 million (net of tax).

In June 2014, a further two states entered into a settlement agreement in relation to disputed NPM Adjustment Claims for the years 2003 to 2012. Under the settlement RAI expects to receive more than US$170 million in Master Settlement Agreement (MSA) credits to be applied over 5 years. In addition, in 2015, another state agreed to settle NPM disputes related to claims for the period 2004 to 2014. It is estimated that RAI will receive US$285 million in credits, which will be applied over the next four years. Credits in respect of future years' payments and the NPM Adjustment claims would be accounted for in the applicable year and will not be treated as adjustable items. Only credits in respect of prior year payments are included as adjustable items.

For the year ended 31 December 2014:

In 2014, the Group's interest in ITC decreased from 30.47% to 30.26% as a result of ITC issuing ordinary shares under the company's Employee Share Option Scheme. This resulted in a gain of £14 million, which was treated as a deemed partial disposal and included in the income statement.

RAI also recognised amounts that have been combined in the table of adjusting items in the Group income statement and are shown as "other". There were costs in respect of a number of Engle progeny lawsuits and other tobacco litigation charges that amount to US$102 million, the Group's share of which is £16 million (net of tax). RAI recognised income of US$34 million related to the 2013 MSA liability as an adjusting item. The Group's share of this income amounted to £5 million (net of tax). RAI recognised a net gain from discontinued activities of US$25 million, reduced by restructuring activities of US$16 million, resulting in a net gain of US$9 million. The Group's share of this net gain amounted to £4 million (net of tax).

ADJUSTING ITEMS INCLUDED IN TAXATION

IFRS requires entities to provide deferred taxation on the undistributed earnings of associates and joint-ventures. The Group's share of the gain on the divestiture of intangibles and other assets by RAI to ITG Brands LLC, a subsidiary of Imperial Tobacco Group PLC, is £371 million. Given that the profit on this item is recognised as an adjusting item by the Group, the additional deferred tax charge of £22 million on the potential distribution of these undistributed earnings has also been treated as adjusting.

The adjusting tax item also includes £80 million (2014: £69 million) in respect of the tax on adjusting items, as described above and on pages 21 and 22.

CASH FLOW AND NET DEBT MOVEMENTS

(a) Alternative cash flow (at current rates of exchange unless specifically noted)

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.

	2015	2014
	£m	£m
Adjusted profit from operations (page 13)	**4,992**	5,403
Depreciation, amortisation and impairment	**338**	396
Other non-cash items in operating profit	**(1)**	45
Profit from operations before depreciation, amortisation and impairment	**5,329**	5,844
Increase in working capital	**(263)**	(309)
Net capital expenditure	**(483)**	(627)
Gross capital expenditure	**(591)**	(689)
Sale of fixed assets	**108**	62
Operating cash flow	**4,583**	4,908
Pension funds' shortfall funding	**(148)**	(140)
Net interest paid	**(522)**	(426)
Tax paid	**(1,273)**	(1,433)
Franked Investment Income Group Litigation Order (FII GLO)	**963**	-
Dividends paid to non-controlling interests	**(235)**	(249)
Cash generated from operations	**3,368**	2,660
Memo: Cash generated from operations at constant rates of exchange	**3,656**	**2,660**
Restructuring costs	**(405)**	(325)
Non-tobacco litigation: Flintkote and Fox River (settlement)	**(20)**	(437)
Tobacco litigation: Quebec (deposit)	**(55)**	-
Dividends and other appropriations from associates	**593**	609
Free cash flow	**3,481**	2,507
Dividends paid to shareholders	**(2,770)**	(2,712)
Share buy-back (including transaction costs)	**-**	(800)
Net investment activities	**(5,192)**	(6)
Net flow from share schemes and other	**(52)**	108
Net cash outflow	**(4,533)**	(903)
External movements on net debt		
Exchange rate effects*	**(112)**	270
Change in accrued interest and other	**16**	(17)
Change in net debt	**(4,629)**	(650)
Opening net debt	**(10,165)**	(9,515)
Closing net debt	**(14,794)**	(10,165)

* Including movements in respect of debt-related derivatives.

Cash flow and net debt movements cont…

In the alternative cash flow presented on page 24, the operating cash flow decreased by £325 million, or 7%, to £4,583 million, reflecting the growth in underlying operating performance at constant currency being more than offset by adverse exchange movements. Free cash flow was higher by £974 million or 39%, at £3,481 million as the receipt related to the FII GLO case, as described on page 34 and lower cash paid in the year in respect of Flintkote and Fox River which, combined with a reduction in tax paid, offset higher net interest paid, higher outflows for restructuring costs and the deposit of £55 million (CAD $108 million) in relation to the Quebec Class Action.

The conversion of adjusted operating profit to operating cash flow remained strong at 92% (2014: 91%). Due to the receipt in relation to FII GLO and lower cash costs related to non-tobacco related litigation (Flintkote and Fox River), the ratio of free cash flow per share to adjusted diluted earnings per share increased to 90% (2014: 64%).

Below free cash flow, the principal cash outflows for 2015 comprise the payment of the prior year final dividend and the 2015 interim dividend, which was £58 million higher at £2,770 million, as well as a £5,192 million cash outflow related to net investment activities. This was principally due to the investment in RAI, the buy-out of the minorities in Souza Cruz and the acquisition of TDR in Croatia. During 2014, the cash outflow from net investing activities was £6 million relating to various entities in which the Group already had an interest.

The other net flows in 2015 principally relate to shares purchased by the employee share ownership trusts and cash flows in respect of certain derivative financial instruments.

These flows resulted in a net cash outflow of £4,533 million (2014: £903 million outflow). After taking account of other changes, especially exchange rate movements, total net debt was £4,629 million higher at £14,794 million at 31 December 2015 (2014: £10,165 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:

	2015	2014
	£m	£m
Net debt due within one year:		
Borrowings	**2,195**	2,479
Related derivatives	**(46)**	(79)
Cash and cash equivalents	**(1,963)**	(1,818)
Current available-for-sale investments	**(35)**	(50)
	151	532
Net debt due beyond one year:		
Borrowings	**14,806**	9,779
Related derivatives	**(163)**	(146)
	14,643	9,633
Total net debt	**14,794**	10,165

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 includes the following items:

	2015 £m	2014 £m
Profit from operations	**4,557**	4,546
Adjustments for:		
Depreciation, amortisation and impairment costs	**428**	523
(Increase) in inventories	**(520)**	(405)
(Increase) in trade and other receivables	**(508)**	(36)
(Increase) in amounts receivable in respect of the Quebec Class Action	**(55)**	-
Increase in trade and other payables	**732**	203
FII GLO receipts (see page 34)	**963**	-
(Decrease) in net retirement benefit liabilities	**(191)**	(170)
Increase/(Decrease) in provisions for liabilities and charges	**48**	(76)
Other non-cash items	**(54)**	49
Cash generated from operations	**5,400**	4,634

(d) IFRS net cash and cash equivalents

The net cash and cash equivalents in the IFRS Group cash flow statement on page 18 comprise:

	2015 £m	2014 £m
Cash and cash equivalents per balance sheet	**1,963**	1,818
Accrued interest	**(1)**	(1)
Overdrafts	**(232)**	(325)
Net cash and cash equivalents	**1,730**	1,492

(e) Liquidity

The Treasury function is responsible for raising finance for the Group, managing the Group's cash resources and managing the financial risks arising from underlying operations. All these activities are carried out under defined policies, procedures and limits.

The Group targets an average centrally managed debt maturity of at least five years with no more than 20% of centrally managed debt maturing in a single rolling year. As at 31 December 2015, the average centrally managed debt maturity was 7.9 years (2014: 6.8 years) and the highest proportion of centrally managed debt maturing in a single rolling 12-month period was 15.0% (2014: 18.7%).

It is Group policy that short-term sources of funds (including drawings under both the US$3 billion US commercial paper programme and the £1 billion euro commercial paper programme) are backed by undrawn committed lines of credit and cash. At 31 December 2015, £505 million of commercial paper was outstanding (2014: £160 million).

In February 2015, the Group signed a one-year bridge facility of £2.5 billion with an extension option of up to one year for its possible public tender offer to acquire up to all of the 24.7% of Souza Cruz shares which were not owned by BAT. This was cancelled in December 2015.

In March 2015, the Group issued €3 billion of bonds in four tranches as follows: €800 million maturing in 2019, €800 million maturing in 2023, €800 million maturing in 2027 and €600 million maturing in 2045. A €1.25 billion bond was repaid.

Cash flow and net debt movements cont…

In March 2015, a one year extension option was exercised for the £3 billion main bank facility, extending the final maturity to May 2020. The facility was undrawn as at 31 December 2015 (2014: undrawn). The US$2 billion US commercial paper programme was increased in size to US$3 billion.

In June 2015, the Group issued US$4.5 billion of bonds in five tranches as follows: US$750 million maturing in 2018, US$1,250 million maturing in 2020, US$500 million maturing in 2022, US$1,500 million maturing in 2025 and US$500 million of floating rate notes maturing in 2018. A US$500 million bond was repaid. The US$4.7 billion bridge facility in respect of the RAI transaction was cancelled following the issue of the bonds.

In July 2015, the Group received £620 million from HM Revenue & Customs in connection with the FII GLO, as described on page 34. The Group received a further £343 million in November 2015.

In November 2015, the Group issued a €600 million bond maturing in 2022 and a £350 million bond maturing in 2055.

In March 2014, the Group issued €1 billion of bonds in two tranches as follows: €600 million maturing in 2029 and €400 million of floating rate notes maturing in 2018.

In May 2014, the Group, via B.A.T. International Finance p.l.c. negotiated a new main bank facility of £3 billion with a final maturity of May 2019 (with two additional one year extensions at the option of the banks). This facility is provided by 22 banks. The new facility is on significantly improved terms compared to the previous facility of £2 billion, with a maturity of December 2015, which was cancelled at the same time.

In June 2014, the Group purchased and cancelled an existing US$40 million bond with a maturity of 2029; financed from Group cash balances.

In August 2014, the Group repaid a maturing MYR250 million note, financed from Group cash balances.

In September 2014, the Group issued SFr1 billion of bonds in three tranches as follows: SFr350 million maturing in 2016, SFr400 million maturing in 2021 and SFr250 million maturing in 2026. A one-year bridge facility of US$4.7 billion with an extension option of up to one year for the Group's investment in RAI was signed. A €600 million bond was repaid, financed from Group cash balances.

The Group has drawn US$225 million in 2015 and 2014 against a US$240 million Chilean peso facility maturing in 2016.

EARNINGS PER SHARE

Adjusted diluted earnings per share were marginally ahead of prior year at 208.4p (2014: 208.1p), as the growth in the Group's operating profit at constant rates of exchange, higher share of post-tax results of associates and joint ventures, lower tax charge and a reduction in non-controlling interest was offset by the adverse impact of foreign exchange on the Group's performance. Excluding this impact, at constant rates of exchange, adjusted diluted earnings per share increased by 10.1% to 229.1p (2014: 208.1p). Basic earnings per share were 38.2% higher at 230.9p (2014: 167.1p), benefitting from one off gains in 2015 as a result of the acquisition of Lorillard Inc. by the Group's associate RAI, as described on page 22, whilst the one off charge in 2014 in relation to non-tobacco litigation does not repeat.

	2015 Pence	2014 pence
Earnings per share		
- basic	**230.9**	167.1
- diluted	**230.3**	166.6
Adjusted earnings per share		
- basic	**208.9**	208.7
- diluted	**208.4**	208.1
Headline earnings per share		
- basic	**210.4**	169.7
- diluted	**209.8**	169.1

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.

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 2/2015 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

Adjusted diluted earnings per share and **adjusted diluted earnings per share at constant rates of exchange** are calculated by taking the following adjustments into account (see pages 21 to 23):

	2015 pence	2014 pence
Unadjusted diluted earnings per share	**230.3**	166.6
Effect of restructuring and integration costs	**15.7**	20.6
Effect of amortisation of trademarks and similar intangibles	**3.0**	2.7
Effect of Fox River	**-**	(1.4)
Effect of Flintkote	**0.2**	20.0
Effect of associates' adjusting items	**(15.7)**	(0.4)
Effect of adjusting items in net finance costs	**(26.3)**	-
Effect of adjusting items in respect of deferred taxation	**1.2**	-
Adjusted diluted earnings per share	**208.4**	208.1
Effect of exchange rate movements	**20.7**	-
Adjusted diluted earnings per share (at constant rates)	**229.1**	208.1

Earnings per share cont…

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

	2015 pence	2014 pence
Unadjusted diluted earnings per share	**230.3**	166.6
Effect of impairment of intangibles and property, plant and equipment and held-for-sale assets	**1.1**	4.7
Effect of gains on disposal of property, plant and equipment and held-for-sale assets	**(2.2)**	(1.4)
Effect of associates' gain on disposal of asset held-for-sale	**(18.7)**	-
Effect of issue of shares and change in shareholding in associate	**(1.2)**	(0.8)
Other	**0.5**	-
Diluted headline earnings per share	**209.8**	169.1

An alternative measure of headline earnings per share has been presented below to take account of the adjusting items in net finance costs and taxation and non-tobacco litigation relating to Fox River and Flintkote (see page 22); this measure is in addition to and not mandated by the JSE Listing Requirements:

	2015	2014
Headline earnings per share amended for adjusting items in net finance costs and taxation, Fox River and Flintkote	**183.3**	187.7

In the earnings per share disclosed above, the calculation is based upon the following level of earnings and number of shares:

	2015		2014	
	Earnings £m	Shares m	Earnings £m	Shares m
For earnings per share				
- basic	**4,290**	**1,858**	3,115	1,864
- diluted	**4,290**	**1,863**	3,115	1,870
For adjusted earnings per share				
- basic	**3,882**	**1,858**	3,891	1,864
- diluted	**3,882**	**1,863**	3,891	1,870
- diluted, at constant rates	**4,267**	**1,863**	3,891	1,870
For headline earnings per share				
- basic	**3,909**	**1,858**	3,163	1,864
- diluted	**3,909**	**1,863**	3,163	1,870

DIVIDENDS

Recommendation

The Board recommends a final dividend of 104.6p per ordinary share of 25p for the year ended 31 December 2015. If approved by shareholders at the Annual General Meeting to be held on 27 April 2016, the final dividend will be payable on 5 May 2016 to shareholders registered on either the UK main register or the South Africa branch register on 18 March 2016 (the record date).

General Dividend Information

Under IFRS, the recommended final dividend in respect of a year is only provided in the accounts of the following year. Therefore, the 2015 accounts reflect the 2014 final dividend and the 2015 interim dividend amounting to 150.0p (£2,770 million in total (2014: 144.9p - £2,712 million)).

The following is a summary of the dividends declared/recommended for the years ended 31 December 2015 and 2014.

	2015		2014	
	Pence per share	**£m**	Pence per share	£m
Ordinary shares				
Interim				
- 2015 paid 30 September 2015	**49.4**	**908**		
- 2014 paid 30 September 2014			47.5	881
Final				
- 2015 payable 5 May 2016	**104.6**	**1,943**		
- 2014 paid 7 May 2015			100.6	1,862
	154.0	**2,851**	148.1	2,743

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 final dividend are applicable:

Event	**Date 2016**
Last Day to Trade (LDT) cum dividend (JSE)	Friday 11 March
Shares commence trading ex-dividend (JSE)	Monday 14 March
Shares commence trading ex-dividend (LSE)	Thursday 17 March
Record date (JSE and LSE)	Friday 18 March
Payment date	Thursday 5 May
No removal requests permitted between the UK main register and the South Africa branch register	Thursday 25 February to Friday 18 March (inclusive)
No transfers permitted between the UK main register and the South Africa branch register	Monday 14 March to Friday 18 March (inclusive)
No shares may be dematerialised or rematerialised	Monday 14 March to Friday 18 March (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 = 21.32780 as at 23 February 2016 (the closing rate on that date as quoted by Bloomberg), results in an equivalent final dividend of 2,230.88788 SA cents per ordinary share.

Dividends cont…

South Africa Branch Register: Dividends Tax Information

South Africa Dividends Tax of 334.63318 SA cents per ordinary share will be withheld from the gross final dividend paid to shareholders on the South Africa branch register at the rate of 15% unless a shareholder qualifies for an exemption. After Dividends Tax has been withheld, the net dividend will be 1,896.25470 cents per ordinary share. The final dividend is regarded as a 'foreign dividend' for the purposes of the South Africa Dividends Tax.

At the close of business on 23 February 2016 (the latest practicable date prior to the date of the recommendation of the final dividend), British American Tobacco p.l.c. (the "Company") had a total of 1,864,228,895 ordinary shares in issue (excluding treasury shares). The Company held 162,645,590 ordinary shares in treasury giving a total issued share capital of 2,026,874,485 ordinary shares.

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, Dividends 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 Dividends Tax to Computershare Investor Services Proprietary Limited, contact details for which are given in the 'Corporate Information' section below.

RETIREMENT BENEFIT SCHEMES

The Group's subsidiaries operate around 170 retirement benefit arrangements worldwide. The majority of the scheme members belong to defined benefit schemes, most of which are funded externally and many are closed to new entrants. The Group also operates a number of defined contribution schemes.

The present total value of funded scheme liabilities as at 31 December 2015 was £5,956 million (2014: £6,609 million), while unfunded scheme liabilities amounted to £364 million (2014: £385 million). The fair value of scheme assets decreased from £6,266 million in 2014 to £6,086 million in 2015.

After excluding unrecognised scheme surpluses of £11 million (2014: £13 million), the overall net liability for all pension and health care schemes in Group subsidiaries amounted to £245 million at the end of 2015, compared to £741 million at the end of 2014.

The actuarial gains of £283 million (2014: £428 million loss) recognised in the Group Statement of Comprehensive Income are principally driven by changes in the discount rates used in the valuation of retirement benefit scheme liabilities at each year end, resulting in a £377 million gain (2014: £884 million loss) offset by reductions in the fair value of scheme assets of £94 million (2014: £456 million increase).

Contributions to the defined benefit schemes are determined after consultation with the respective trustees and actuaries of the individual externally funded schemes, taking into account regulatory environments.

CHANGES IN THE GROUP

In addition to the cash investment of US$4.7 billion (£3.0 billion) in RAI, the public tender offer to acquire up to all of the 24.7% of Souza Cruz shares not currently owned by the Group, the acquisition of TDR and the acquisition of the leading e-cigarette business in Poland, the CHIC Group (see page 10), the Group has the following change:

On 15 December 2014, the Hungarian Government voted in new legislation whereby the distribution of tobacco products to retail would move to a single authorised concession holder. The concession holder would have the right to exclusively supply the Hungarian tobacco retail universe of approximately 6,000 outlets, whilst generating a legislated margin at legislated trading terms. On 11 June 2015, it was announced that a joint venture between Taban Trafik, the distribution company of local manufacturer Continental, and a Group subsidiary in Hungary would be granted the exclusive distribution concession for tobacco products, for a period of 20 years. This became effective from 17 November 2015.

SHARE BUY-BACK PROGRAMME

The Group suspended, with effect from 30 July 2014, its approved on-market share buy-back programme with a value of up to £1.5 billion. This was as a result of the Group's announcement on 15 July 2014 that it planned to invest US$4.7 billion (£3.0 billion) as part of RAI's proposed acquisition of Lorillard Inc. and enabling the Group to maintain its 42% equity position in the enlarged RAI's business.

During the year ended 31 December 2014, 23 million shares were bought at a cost of £795 million, excluding transaction costs of £5 million.

RELATED PARTY DISCLOSURES

The Group's related party transactions and relationships for 2014 were disclosed on page 189 of the Annual Report for the year ended 31 December 2014. In the year to 31 December 2015, there were no material changes in related parties or in related party transactions except for the matters noted below:

In addition to the $4.7 billion (£3.0 billion) investment noted previously, on 1 December 2015, the Group announced the agreement with R.J. Reynolds Tobacco Company (RJRT), a subsidiary of RAI, of a vapour products technology sharing agreement. This agreement will provide a framework for collaboration and mutual cross-licencing of the parties' vapour product technologies up to 31 December 2022. On 4 January 2016, the Group served notice to terminate a contract manufacturing agreement with RJRT for certain American-blend cigarettes manufactured for the Japanese market.

As described on page 10, the Group acquired the shares not already owned in its subsidiary Souza Cruz S.A. and delisted the company. Souza Cruz became a wholly owned subsidiary on 5 February 2016.

FOREIGN CURRENCIES

The principal exchange rates used were as follows:

	Average		Closing	
	2015	2014	**2015**	2014
Australian dollar	**2.036**	1.827	**2.026**	1.905
Brazilian real	**5.101**	3.874	**5.831**	4.145
Canadian dollar	**1.954**	1.819	**2.047**	1.806
Euro	**1.378**	1.241	**1.357**	1.289
Indian rupee	**98.070**	100.529	**97.508**	98.424
Japanese yen	**185.012**	174.223	**177.303**	186.946
Russian rouble	**93.591**	63.412	**107.646**	93.555
South African rand	**19.522**	17.861	**22.839**	18.039
US dollar	**1.528**	1.648	**1.474**	1.559

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.

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 in the next three years.

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, among 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 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.

There are disputes that may proceed to litigation in a number of countries including Brazil, Netherlands and South Africa, whilst a dispute in Bangladesh, which proceeded to litigation in 2014, is on-going.

Group litigation

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.

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 that could in some cases equal or exceed the amount of the judgement. In any event, with regard to US litigation, except for recent litigation brought against the company by the shareholders of RAI and Lorillard Inc., the Group has the benefit of an indemnity from R. J. Reynolds Tobacco Company, a wholly-owned subsidiary of RAI. 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, with the exception of Fox River, the Group (i) does not consider it appropriate to make any provision or charge in respect of any pending litigation, (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 and tax disputes as at 31 December 2015 will be included in the Annual Report for the year ended 31 December 2015. There were no material developments in 2015 that would impact on the financial position of the Group, except for judgement in respect of the Quebec Class Action as described on page 10.

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 (HMRC) 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 judgment in November 2008 concluded, amongst other things, that the corporation tax provisions relating to dividend income from EU subsidiaries breached EU law. 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 creditable against advance corporation tax (ACT) liabilities with the consequence that 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 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 judgment 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 judgment 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.

The detailed technical issues of the quantification mechanics of the claim were heard by the High Court during May and June 2014 and the judgment handed down on 18 December 2014. The High Court determined that in respect of issues concerning the calculation of unlawfully charged corporation tax and advanced corporation tax, the law of restitution including the defence on change of position and questions concerning the calculation of overpaid interest, the approach of the British American Tobacco Group was broadly preferred. The conclusion reached by the High Court would, if upheld, produce an estimated receivable of £1.2 billion for British American Tobacco. Appeals on a majority of the issues have been made to the Court of Appeal, which is likely to hear the case in 2016.

During 2015, HMRC paid to the Group a gross amount of £1,224 million in two separate payments. The payments made by HMRC have been made without any admission of liability and are subject to refund were HMRC to succeed on appeal. The second payment in November 2015 followed the introduction of a new 45% tax on the interest component of restitution claims against HMRC. HMRC held back £261 million from the second payment contending that it represents the new 45% tax on that payment, leading to total cash received by the Group of £963 million. Actions challenging the legality of the 45% tax have been lodged by both the Group and other participants in the FII GLO.

Due to the uncertainty of the amounts and eventual outcome the Group has not recognised any impact in the Income Statement in the current or prior period. The receipt, net of the deduction by HMRC, is held as deferred income. Any future recognition as income will be treated as an adjusting item, due to the size of the order, with interest (£8 million in 2015) accruing on the balance, which was also treated as an adjusting item.

ANNUAL REPORT

Statutory accounts

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2015 or 2014. Statutory accounts for 2014 have been delivered to the Registrar of Companies and those for 2015 will be delivered following the Company's Annual General Meeting. The auditors' reports on both the 2014 and 2015 accounts were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of Companies Act 2006 or equivalent preceding legislation.

Publication

The Annual Report will be published on bat.com on 22 March 2016. At that time, a printed copy will be mailed to shareholders on the UK main register who have elected to receive it. Otherwise, such shareholders will be notified that the Annual Report is available on the website and will, at the time of that notification, receive a Performance Summary (which sets out an overview of the Group's performance, headline facts and figures and key dates in the Company's financial calendar) together with a Proxy Form. Specific local mailing and/or notification requirements will apply to shareholders on the South African branch register.

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 that 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 that could cause actual results to differ materially from those currently anticipated.

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

DISTRIBUTION OF PRELIMINARY STATEMENT

This announcement is released to the London Stock Exchange and the JSE Limited. It may be viewed and downloaded from our website 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.

Nicola Snook
Secretary
24 February 2016

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.

GROUP VOLUME

The Group volume includes 100% of all volume sold by subsidiaries. As previously reported in the case of the joint operation, (known as CTBAT International Limited) between subsidiaries of China National Tobacco Corporation (CNTC) and the Group, the volume of CTBAT not already recognised by Group subsidiaries is included in Group volumes at 100% rather than as a proportion of volume sold, in line with the Group's measurement of market share, which is based on absolute volume sold, both in individual markets and globally.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR 2016

Tuesday 26 April	Interim Management Statement (*This represents a change to the previously reported date due to the closure of the JSE on a national holiday in South Africa on 27 April 2016*)
Wednesday 27 April	Annual General Meeting at 11.30am Milton Court Concert Hall, Silk Street, London EC2Y 9BH
Thursday 28 July	Half-Yearly Report
Wednesday 26 October	Interim Management Statement

CALENDAR FOR THE FINAL DIVIDEND 2015

2016

Thursday 25 February	Dividend announced: amount of dividend per share in both sterling and rand; applicable exchange rate and conversion date – Tuesday 23 February 2016; plus additional applicable information as required in respect of South Africa Dividends Tax(1).
Thursday 25 February to Friday 18 March	From the commencement of trading on Thursday 25 February 2016 to Friday 18 March 2016 (inclusive), no removal requests in either direction between the UK main register and the South Africa branch register will be permitted.
Friday 11 March	Last Day to Trade or LDT (JSE)
Monday 14 March to Friday 18 March	From the commencement of trading on Monday 14 March 2016 to Friday 18 March 2016 (inclusive), no transfers between the UK main register and the South Africa branch register will be permitted; no shares may be dematerialised or rematerialised.
Monday 14 March	Ex-dividend date (JSE)
Thursday 17 March	Ex-dividend date (LSE)
Friday 18 March	Record date (LSE and JSE)
Wednesday 13 April	Last date for receipt of Dividend Reinvestment Plan (DRIP) elections (UK main register only)
Thursday 5 May	Payment date (sterling and rand)

Note:

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

For holders of American Depositary Receipts (ADRs), the record date for ADRs is also Friday 18 March 2016 with an ADR payment date of Tuesday 10 May 2016.

CORPORATE INFORMATION

Premium listing

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

Secondary listing

JSE (Share Code: BTI)
Shares are traded in electronic form only and transactions settled electronically through Strate.
Computershare Investor Services Proprietary Limited
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 (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
The Company's Representative office in South Africa using the contact details shown below.

British American Tobacco p.l.c.

Registered office
Globe House
4 Temple Place
London
WC2R 2PG
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 3194