news release

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BRITISH AMERICAN TOBACCO p.l.c.
HALF-YEAR REPORT TO 30 JUNE 2016

A STRONG PERFORMANCE DRIVEN BY ORGANIC GROWTH

KEY FINANCIALS	**2016**		2015	Change	
Six Months Results - unaudited	**Current rates**	**Constant rates**		Current rates	Constant rates
Revenue	**£6,669m**	**£6,900m**	£6,398m	+4.2%	+7.8%
Adjusted profit from operations*	**£2,452m**	**£2,551m**	£2,507m	-2.2%	+1.8%
Profit from operations	**£2,213m**	**£2,309m**	£2,347m	-5.7%	-1.6%
Adjusted diluted earnings per share*	**111.1p**	**113.6p**	100.2p	+10.9%	+13.4%
Basic earnings per share	**143.8p**		142.4p	+1.0%	
Interim dividend per share	**51.3p**		49.4p	+4.0%	

*The non-GAAP measures, including adjusting items and constant currencies, are set out on page 22.

HALF-YEAR HIGHLIGHTS

- Group revenue was up 7.8% at constant rates of exchange, or 6.0% on an organic basis, driven by a strong volume performance and good pricing. Reported revenue was 4.2% higher than the same period last year, reflecting the continued adverse translational impact of exchange rates.
- Group cigarette volume was 332 billion, an increase of 3.4% on the same period last year, or 2.1% on an organic basis.
- The Group's cigarette market share[1] in its Key Markets[2] continued to grow strongly, up 30 basis points (bps) driven by the Global Drive Brands which increased volume by 10.8%.
- Adjusted Group profit from operations, at constant rates of exchange, was up 1.8% at £2,551 million. Excluding the adverse transactional impact of foreign exchange, the increase would have been approximately 8%. At current rates of exchange, adjusted profit from operations fell 2.2%.
- Profit from operations, at current rates of exchange, was 5.7% lower at £2,213 million.
- Underlying operating margin[3] fell 170 bps. Excluding the adverse transactional impact of foreign exchange, it would have increased by around 50 bps. On a reported basis, operating margin fell 240 bps to 36.8%.
- Adjusted diluted earnings per share, at constant rates of exchange, were up 13.4%. At current rates, they were 10.9% higher at 111.1p.
- Basic earnings per share were 1.0% higher at 143.8p (2015: 142.4p), benefiting from the acquisition of Lorillard Inc. by the Group's associate Reynolds American Inc. (RAI) in 2015 and one-off gains as a result of RAI's sale of the international brand rights of Natural American Spirit.
- Our Next Generation Products portfolio continues to develop with Vype performing well and now available in six markets. iFuse (our first tobacco heating product) is performing ahead of expectations in Romania. Our portfolio has been further strengthened by the acquisition of Ten Motives in April 2016.
- The Board has declared an interim dividend of 51.3p, being one third of the 2015 dividend, a 4% increase on last year. This will be paid on 28 September 2016.

[1] Key Market offtake share, as independently measured by AC Nielsen
[2] The Group's Key Markets represent over 75% of the Group's volume
[3] Underlying operating margin excludes the impact of acquisitions and certain accounting adjustments made in 2015

Richard Burrows, Chairman, commenting on the 6 months ended 30 June 2016

"The business has delivered strong organic growth in the first six months of the year. This is despite the significant adverse transactional impact of foreign exchange and the continued investment in our long-term future via our Next Generation Products portfolio. With profit growth weighted to the second half of the year, we remain confident that we will deliver another year of good earnings growth at constant rates of exchange."

CHIEF EXECUTIVE'S REVIEW

Continuing strong organic growth
The Group's performance in the first six months of the year has been very good, underpinned by strong organic growth.

Group revenue grew 7.8% at constant rates of exchange driven by good pricing, with price/mix of approximately 4%. Constant organic revenue grew 6.0%. Reported revenue grew 4.2%, reflecting the adverse translational exchange rate movements of around 4%.

Group cigarette volume increased 3.4% to 332 billion. It is estimated that the industry will decline by around 2.5% for the full year.

Market share in our Key Markets grew 30 bps, driven by an outstanding performance from our Global Drive Brands (GDB), which all grew market share, up a combined 80 bps, with volume higher by 10.8%.

Adjusted operating profit at constant rates of exchange was up 1.8%. Operating margin fell 240 bps on a reported basis. Excluding the significant adverse transactional impact of foreign exchange, adjusted operating profit growth would have been approximately 8%, with the underlying operating margin increasing around 50 bps.

If exchange rates stayed where they are today we would expect a translational full year tailwind of 4% on operating profit due to the current weakness of sterling. However we would expect the transactional foreign exchange impact to be an operating profit headwind of approximately 6% for the full year.

Progress in Next Generation Products (NGP)
In the first half of 2016, we have made excellent progress in our NGP business.

The global vapour products category continues to grow at a significant rate and, following the geographic expansion of Vype, we are now present in the biggest vapour markets outside of the US. Vype is performing extremely well - having reached 9% category retail share of market in the UK, as measured by AC Nielsen, and an estimated category retail share[4] of 8% in Germany and 5% in France. It is now available in several innovative product formats, with new product launches and upgrades planned for this year. Further expansion to new markets are planned later in the year and into 2017.

The integration of the Chic Group, the market leading Vapour Product business in Poland is also on track and our recent acquisition of Ten Motives in the UK has increased our strength in the traditional grocery and convenience channels in the UK vapour market.

iFuse, our first Tobacco Heating Product, was launched in Bucharest, generating encouraging consumer interest, with a country-wide roll out planned in the next 12 months.

Our continued significant investment in NGP R&D means we have an exciting pipeline of new products and launches planned.

On track for another good year
I am confident that we remain on track for another year of good earnings growth at constant rates of exchange despite the continuing difficult trading environment in a number of our key markets.

An interim dividend of 51.3p, an increase of 4%, will be paid on 28 September 2016, being one third of the prior year dividend and in line with the Group's intention to increase the dividend year on year.

Nicandro Durante
27 July 2016

[4] Category retail share based upon internal estimates for Vype in Germany and France

REGIONAL REVIEW

This review presents the underlying performance of the regions and markets, at constant translational rates of exchange. However, as explained on page 22, 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 significant adjusting items, explained on pages 24 and 25.

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

	Adjusted profit from operations			Cigarette volume		
	6 months to			6 months to		Year to
	30.6.16		30.6.15	**30.6.16**	30.6.15	31.12.15
	Current rates	**Constant rates**				
	£m	**£m**	£m	**Bns**	Bns	Bns
Asia-Pacific	**761**	**756**	776	**105**	103	198
Americas	**536**	**618**	622	**56**	60	124
Western Europe	**590**	**559**	519	**57**	52	112
EEMEA	**565**	**618**	590	**114**	107	229
Total	**2,452**	**2,551**	2,507	**332**	322	663
Total tobacco volume				**344**	334	689

The Group continued to perform very well in the first half of 2016, driven by market share growth, good pricing and a strong performance from the Global Drive Brands, despite the continued transactional foreign exchange headwinds.

Revenue in constant currency was 7.8% higher, or 6.0% on an organic basis, with good pricing underpinning a price/mix of approximately 4%. Pricing in high inflation markets was offset by the increased adverse impact of geographic mix. At current rates of exchange, revenue increased 4.2%, with the lower rate of growth reflecting the continued adverse effect of currency headwinds on reported results.

Adjusted profit from operations (see page 23), at constant rates of exchange, was ahead of the prior year 1.8% at £2,551 million, but would have increased by approximately 8% when adjusted for the transactional impact of foreign exchange on the cost of items such as leaf, filter tow and wrapping materials. Adjusted operating profit, at current rates of exchange, fell 2.2% reflecting the foreign exchange headwinds on reported results.

Group cigarette volume from subsidiaries increased 3.4% to 332 billion, or 2.1% organically. Excluding inventory movements impacting 2015, organic volume grew 1.5%. Growth in Ukraine, Bangladesh, Russia, Vietnam, Indonesia and Turkey was partly offset by declines in Pakistan, Brazil, Venezuela and Malaysia.

Market share increased 30 bps, driven by a very strong performance from the Global Drive Brands, which all grew market share, with a combined growth of 80 bps, on volume that was up 10.8%:

- Dunhill market share was higher as volume grew 3.4%, driven mainly by Indonesia, more than offsetting lower volume in Malaysia, Brazil and GCC;
- Kent volume increased 6.8%, with market share up 10 bps, driven by Chile, Turkey, Japan and Russia;
- Lucky Strike grew market share, 10 bps, and volume, 13.0%, with growth in Indonesia, Colombia and France more than offsetting lower volume in Argentina and Russia;
- Pall Mall market share grew 10 bps, although volume declined 1.0% as growth in Venezuela, Poland and Romania, was more than offset by the migration to Rothmans in Italy and lower volume, particularly in Pakistan;
- Rothmans' strong growth in volume (+48.8%) and market share (+50 bps) was driven by Ukraine, Australia, Russia, Italy and Turkey.

Regional review cont…

Other international brands' cigarette volume declined 7.4%, as growth in State Express 555 and Craven A was more than offset by lower volume in Vogue, Viceroy, Peter Stuyvesant and JPGL.

ASIA-PACIFIC

Adjusted profit at constant rates of exchange decreased by £20 million or 2.7%, as strong profit growth in South and East Asia was more than offset by Malaysia and Australia. Excluding the transactional impact of foreign exchange, adjusted operating profit would have increased by approximately 4%. Adjusted profit, at current rates of exchange, was down 2.0% at £761 million. Volume was up 2.0% against 2015 at 105 billion, as increases in Bangladesh, Vietnam and Indonesia more than offset lower volume in Pakistan and Malaysia.

Key Market	Performance at constant rates of exchange
Australia	Excise led price increases resulted in market contraction and a fall in volume, although market share was up as Rothmans grew strongly in the low priced segment. Profit declined due to lower volume and down-trading.
Japan	Volume and market share grew, driven by Kent. Foreign exchange movements adversely affected cost of sales leading to a reduction in profit.
Pakistan	Profit increased significantly as a result of pricing and cost savings. Market share grew, driven by Pall Mall. Market contraction led to lower volume, as illicit trade increased significantly following the excise led price increase.
Malaysia	Volume and profit were down as higher illicit trade, following the tax driven price increases, led to a reduction in the total market. Market share fell despite good growth in Peter Stuyvesant as Dunhill was impacted by down-trading.
Bangladesh	Higher profit was driven by pricing and strong volume growth, which offset the impact of down-trading. Market share continued to increase.
New Zealand	Profit grew due to good pricing, with volume flat. Market share fell despite good growth in Rothmans.
Vietnam	An increase in volume led to higher profit. Market share was stable as continued growth in the premium segment with State Express 555 was offset by declines in the local portfolio.
South Korea	The unwinding of inventory movements in the comparator period led to higher volume, although market share fell as strong growth in Rothmans was more than offset by Dunhill and Vogue. Profit was lower due to timing of pricing.
Philippines	Market share was up, driven by Pall Mall as distribution increased. Profitability improved, driven by pricing, with volume in line with prior year.
Indonesia	Volume and market share were up as Dunhill continued to grow which offset declines in the local portfolio. Profitability declined as higher marketing investment to support the launch of Lucky Strike was partly offset by pricing and volume.

AMERICAS

Adjusted profit, at constant rates of exchange, fell by £4 million or 0.6% as good performances in Canada, Venezuela, Colombia and Chile were more than offset by lower profit in Brazil and Mexico. Excluding the transactional impact of foreign exchange, adjusted operating profit would have increased by over 3%. Adjusted profit, at current rates of exchange, fell 13.7% to £536 million reflecting the devaluation of the Brazilian Real and Venezuelan Bolivar. Volume was 56 billion, a decline of 6.6% as lower volume in Brazil, Venezuela, Canada and Argentina was only partially offset by higher volume in Colombia and Mexico.

Key Market	Performance at constant rates of exchange
Canada	Profit was higher as good pricing offset lower volume. Market share fell despite growth in Pall Mall and Viceroy.
Brazil	Lower consumer disposable income, higher VAT and excise led price increases drove down-trading, market contraction and higher illicit trade, adversely impacting volume and profit. Market share fell, from an all-time high, despite continued growth in Lucky Strike.
Chile	Market share grew, driven by up-trading to Kent following the successful migration of Belmont. Profit increased, driven by pricing and improved mix, offsetting the impact of lower volume due to market contraction.
Mexico	Market share was higher with volume up, driven by Pall Mall, although profit fell due to a delay in pricing.
Venezuela	Pricing to offset currency devaluation and inflation led to higher profit. Volume fell due to above inflation price increases and the challenging economic environment which impacted consumer disposable income. Market share grew.
Argentina	Volume and market share fell due to down-trading to local manufacturers following the excise led price increase. Profit was lower as the devaluation in the Peso, since currency controls were eased, adversely impacted cost of sales.
Colombia	Market share continued to increase due to the growth in Lucky Strike. Good pricing and higher volume led to an increase in profit.

WESTERN EUROPE

Adjusted profit at constant rates of exchange increased by £40 million (+7.6%) or by £36 million (+7.0%) on an organic basis, as good performances in Germany, Romania, France and Netherlands were partially offset by Italy, Denmark and Switzerland. Excluding the transactional impact of foreign exchange, adjusted operating profit would have increased by over 9%. Adjusted profit, at current rates of exchange, grew 13.8% to £590 million, reflecting the relative weakness of sterling against the Euro. Cigarette volume was 11.0% higher at 57 billion, or 5.1% on an organic basis with good performances in Poland, Romania, France and Italy. Fine Cut volume fell 4.4% mainly due to reductions in the low margin category of Make-Your-Own in Germany.

Key Market	Performance at constant rates of exchange
Germany	Profit was higher driven by strong pricing and improved mix. Volume was in line with the prior year. Market share fell, as a good performance in Lucky Strike was offset by declines in the rest of the portfolio. Fine Cut volume was down. Vype was launched nationally, registering an estimated 8% category retail market share.
Romania	Profit grew strongly driven by pricing and higher volume. Market share increased driven by Pall Mall and Dunhill, more than offsetting a decline in Kent.
Switzerland	Volume and market share were lower, with profit down due to continued price discounting in the low priced segment.
France	Higher volume led to an increase in profit. Lucky Strike performed well, driving an increase in total market share. Vype retail market share increased to 5% (estimated), with distribution expanded to 54 cities.
Denmark	Volume, market share and profit were down due to the growth of the low segment, leading to down-trading.

Regional review cont…

Key Market	Performance at constant rates of exchange
Italy	Rothmans market share grew strongly, partly due to the migration from Pall Mall, leading to growth in total market share over the six months to June. Volume was up, although profit fell partly due to the timing of marketing investment. Vype has been launched in five cities, with further expansion planned.
Belgium	Profit was up, with volume in line with prior year. Market share fell as growth in Lucky Strike was more than offset by Kent.
Netherlands	Profit was higher, with stable volume, partly due to the phasing of marketing investments. Strong market share growth in Pall Mall and Lucky Strike was more than offset by a decline in Kent and the local portfolio, reducing total market share.
United Kingdom	Lower volume, due to market contraction and aggressive competitive pricing, led to a decrease in profit. Market share fell. Vype continues to grow, reaching 9% retail market share as measured by AC Nielsen. The acquisition of Ten Motives further strengthens the portfolio.
Spain	Volume and profit were in line with prior year, with market share down.
Poland	Volume and market share grew strongly, driven by a good performance by Pall Mall, with profitability in line with 2015. The integration of Chic is on schedule with the Group now leading the market in NGP.
Croatia / Balkans	The integration of TDR is progressing well, with the migration to the GDB portfolio on track, driving an increase in total market share.

EASTERN EUROPE, MIDDLE EAST AND AFRICA

Adjusted profit at constant rates of exchange grew by £28 million or 4.9%, as good performances in Russia, Turkey and GCC more than offset lower profit in South Africa and Ukraine. Excluding the transactional impact of foreign exchange, adjusted operating profit would have increased by over 17%. Adjusted profit, at current rates of exchange, decreased 4.2% to £565 million. Volume was 6.6% higher at 114 billion, or 5.7% on an organic basis, as growth in Ukraine, Russia, and Turkey more than offset lower volume in South Africa and GCC.

Key Market	Performance at constant rates of exchange
Russia	Volume was higher with market share growing strongly, as Kent, the leading premium brand, and Rothmans performed well. Good pricing more than offset the transactional foreign exchange impact on cost of sales, leading to higher profit.
South Africa	Volume fell due to down-trading to the low priced segment. Benson & Hedges, Pall Mall and Dunhill all grew market share although total market share fell. Profit was down due to lower volume and the adverse transactional impact of foreign exchange on cost of sales, partially offset by pricing.
GCC	Profit was higher as pricing and cost savings offset lower volume. Market share was lower as Dunhill was impacted by down-trading following tax driven price increases.
Nigeria	Profit was up due to pricing, notably in Benson & Hedges. Volume grew, benefiting from improvements in distribution.
Turkey	Volume was up with good pricing increasing profit. Growth in market share was driven by Kent and Rothmans.
Iran	Volume increased although profit fell due to an increase in excise.
Kazakhstan	Profit increased as higher volume and pricing offset the adverse impact of foreign exchange on cost of sales. Market share grew strongly, driven by Rothmans.
Ukraine	Volume and market share grew strongly. Profit was significantly lower, impacted by increased competitive pricing in the low segment and the adverse transactional impact on cost of sales due to the devaluation in the Hryvnia.
Algeria	Volume was up, driven by Rothmans which, combined with the impact of pricing in 2015, led to higher profit.

Regional review cont…

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 22.

REGIONAL INFORMATION

For the 6 months ended 30 June	Asia -Pacific	Americas	Western Europe	EEMEA	Total
SUBSIDIARIES					
Volume (cigarette billions)					
2016	105	56	57	114	332
2016 (organic)	105	56	54	113	328
2015	103	60	52	107	322
Change	+2.0%	-6.6%	+11.0%	+6.6%	+3.4%
Change (organic)	+2.0%	-6.6%	+5.1%	+5.7%	+2.1%
Revenue (£m)					
2016 (at constant)	1,923	1,527	1,643	1,807	6,900
2016 (organic, at constant)	1,923	1,527	1,553	1,781	6,784
2016 (at current)	1,987	1,297	1,729	1,656	6,669
2015	1,893	1,384	1,463	1,658	6,398
Change (at constant)	+1.5%	+10.4%	+12.3%	+9.0%	+7.8%
Change (organic, at constant)	+1.5%	+10.4%	+6.1%	+7.4%	+6.0%
Change (at current)	+4.9%	-6.3%	+18.2%	-0.1%	+4.2%
Adjusted profit from operations (£m)					
2016 (at constant)	756	618	559	618	2,551
2016 (organic, at constant)	756	618	555	617	2,546
2016 (at current)	761	536	590	565	2,452
2015	776	622	519	590	2,507
Change (at constant)	-2.7%	-0.6%	+7.6%	+4.9%	+1.8%
Change (organic, at constant)	-2.7%	-0.6%	+7.0%	+4.6%	+1.6%
Change (at current)	-2.0%	-13.7%	+13.8%	-4.2%	-2.2%
Operating margin based on adjusted profit (%)					
2016 (organic, at current)	38.3%	41.4%	35.9%	34.6%	37.4%
2016 (at current)	38.3%	41.4%	34.1%	34.1%	36.8%
2015	41.0%	44.9%	35.5%	35.6%	39.2%

All variances quoted above are based upon absolute numbers.
* Organic change excludes the volume, revenue and adjusted profit contribution from the business acquired during the review period.

Regional review cont…

REGIONAL INFORMATION

For the 6 months ended 30 June	Asia -Pacific	Americas	Western Europe	EEMEA	Total
ASSOCIATES AND JOINT VENTURES					
Share of post-tax results of associates and joint ventures (£m)					
2016 (at current)	173	1,268	2	3	1,446
2015	176	622	-	1	799
Change	-1.9%	+104.0%	-	+141.6%	+81.0%
Share of adjusted post-tax results of associates and joint ventures (£m)					
2016 (at constant)	160	415	2	3	580
2016 (at current)	159	441	2	3	605
2015	151	267	-	1	419
Change (at constant)	+5.7%	+55.3%	-	+145.1%	+38.1%
Change (at current)	+5.2%	+65.1%	-	+141.6%	+44.1%

GROUP

For the 6 months ended 30 June	Total
Underlying tax rate of subsidiaries (%)	
2016	29.9%
2015	30.6%
Adjusted diluted earnings per share (pence)	
2016 (at constant)	113.6
2016 (at current)	111.1
2015	100.2
Change (at constant)	+13.4%
Change (at current)	+10.9%

NET FINANCE (COSTS)/INCOME

Net finance cost for the six months to 30 June 2016 was £233 million, compared to an income of £351 million in the same period last year. The movement is principally due to a deemed gain related to the investment in Reynolds American Inc. (RAI) recognised in 2015, as described below. Net adjusted finance costs increased due to higher levels of borrowing compared to the same period last year.

Net finance (costs)/income comprise:

	6 months to		Year to
	30.6.16	30.6.15	31.12.15
	£m	£m	£m
Finance costs	**(260)**	(282)	(584)
Finance income	**27**	633	646
	(233)	351	62
Comprising:			
Interest payable	**(337)**	(288)	(606)
Interest and dividend income	**27**	37	79
Net impact of fair value and exchange	**77**	602	589
- fair value changes - derivatives	**344**	118	245
- exchange differences	**(299)**	(90)	(169)
- hedge ineffectiveness	**32**	-	-
- option costs related to the funding of the acquisition of non-controlling interests in Souza Cruz and investment in RAI	**-**	(27)	(88)
- deemed gain related to the investment in RAI	**-**	601	601
	(233)	351	62
Adjusting items – see below:			
Hedge ineffectiveness	**(32)**	-	-
Interest related to Franked Investment Income Group Litigation Order (FII GLO)	**12**	-	8
Option costs and fees	**-**	30	104
Deemed gain on investment in RAI	**-**	(601)	(601)
Net adjusted financing cost	**(253)**	(220)	(427)

In 2016, the Group experienced significant hedge ineffectiveness, driven by the market volatility in the first six months of the year. The gain of £32 million has been deemed to be adjusting, as it is not representative of the underlying performance of the business through the six months to 30 June 2016.

As described on page 36, the Group received £963 million in 2015 from HM Revenue & Customs in relation to the FII GLO. The case remains subject to on-going appeals. 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), the interest of £12 million (30 June 2015: £nil, 31 December 2015: £8 million) has been accrued and treated as an adjusting item.

In the six months to June 2015, the Group incurred costs of £30 million (31 December 2015: £104 million) in relation to financing activities, associated with the acquisition of the non-controlling interest in the Group's Brazilian subsidiary, Souza Cruz SA and the Group's investment of US$4.7 billion to maintain the current ownership in RAI following its acquisition of Lorillard Inc. The investment also realised a deemed gain of US$931 million (£601 million) as the contract to acquire shares was deemed to be a financial instrument and was 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 immediately prior to the completion of the transaction.

All of the above have been included in the adjusted earnings per share calculation on page 31.

RESULTS OF ASSOCIATES AND JOINT VENTURES

The Group's share of post-tax results of associates and joint ventures increased by £647 million to £1,446 million. The increase was principally due to the growth of RAI following the acquisition of Lorillard Inc. in 2015 and the impact of a US$4,861 million gain recorded by RAI, the Group's share of which is £890 million, in relation to the sale of the international rights to Natural American Spirit to the Japan Tobacco Group of companies (JT). These were partly offset by the inclusion in 2015 of a gain on divesture of certain assets by RAI to ITG Brands LLC, the Group's share of which was £406 million. The Group's share of the adjusted post-tax results of associates and joint ventures increased 44.1% to £605 million, with a rise of 38.1% to £580 million at constant rates of exchange.

The adjusted contribution from RAI increased by 65.7% to £441 million. At constant rates of exchange the increase was 55.8%. The Group's adjusted contribution from its main associate in India, ITC Ltd. (ITC), was £155 million, up 4.8%. At constant rates of exchange, the contribution would have been 5.4% higher than last year. See page 25 for the adjusting items.

TAXATION

	6 months to		Year to
	30.6.16	30.6.15	31.12.15
	£m	£m	£m
UK			
- current year tax	**4**	-	5
Overseas			
- current year tax expense	**573**	660	1,317
- adjustment in respect of prior periods	**4**	(2)	7
Current tax	**581**	658	1,329
Deferred tax	**104**	55	4
	685	713	1,333
Adjusting items (see below)	**(28)**	(13)	58
Net adjusted tax charge	**657**	700	1,391

The tax rate in the income statement of 20.0% for the six months to 30 June 2016 (30 June 2015: 20.4%, 31 December 2015: 22.8%) is 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 31 was 29.9% in 2016 and 30.6% for the six months to 30 June 2015. For the year to 31 December 2015, it was 30.5%.

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 sale of Natural American Spirit by RAI to Japan Tobacco International (JTI) is £890 million. Given that the profit on this item is recognised as an adjusting item by the Group, the additional deferred tax charge of £58 million on the potential distribution of these undistributed earnings has also been treated as adjusting. In the six months to 30 June 2015, RAI recognised a gain on divestiture of certain assets to ITG Brands LLC, the Group's share of which was £406 million, giving rise to a deferred tax charge in that period of £31 million (31 December 2015: £22 million).

The adjusting tax item also includes £30 million for the six months to 30 June 2016 (30 June 2015: £18 million, 31 December 2015: £80 million) in respect of the tax on adjusting items, as described on pages 24 and 25.

Refer to page 36 for the Franked Investment Income Group Litigation Order update.

FREE CASH FLOW AND NET DEBT

In the alternative cash flow presented on page 27, operating cash flow fell by £373 million or 19.9% to £1,503 million, largely due to increases in working capital from the timing of excise payments, the impact of the implementation of the Tobacco Product Directive (TPD) and timing of leaf purchases. Free cash flow fell by £207 million or 27.0% to £559 million as lower payments related to taxation, a reduction in dividends to non-controlling interests (following the completion of the buy-out of the Souza Cruz minority) and an increase in dividends from associates were offset by the working capital increases, described above, and payments on deposit related to the Quebec Class Action.

The conversion of adjusted operating profit to operating cash flow was 61.3% (2015: 74.8%). The ratio of free cash flow per share to adjusted diluted earnings per share fell to 27.0% (2015: 41.1%).

Closing net debt was £17,735 million at 30 June 2016 (30 June 2015: £13,876 million and 31 December 2015: £14,794 million).

The Group's alternative cash flow statement is shown on page 27 and explained on page 22 under non-GAAP measures.

POST BALANCE SHEET EVENT

On 14 July 2016, as part of the on-going review of the Group's manufacturing operations, the Group announced the intention to cease the manufacturing of all Factory Made Cigarette volumes and certain semi-finished goods and filters in Bayreuth, Germany. The manufacturing requirements will be reallocated to other Group factories within the same region.

In July 2016, the Group issued a £500 million bond maturing in 2021. On 19 July 2016, the Group exercised the make-whole provision for its $700mn bond originally issued in 2008 pursuant to rule 144A. The bond will consequently be redeemed on 18 August 2016, prior to its original maturity date of 15 November 2018.

CHANGE TO QUARTERLY REPORTING

Since November 2014, in accordance with the relevant regulations, BAT has published a quarterly Interim Management Statement (IMS) at the end of April and October on a voluntary basis. With effect from 1 January 2017, BAT will cease publication of an IMS for Q1 and Q3 and will instead release two short trading updates shortly before the closed periods for the Interim and the Full Year Preliminary Announcements.

RISKS AND UNCERTAINTIES

The principal risks and uncertainties which may affect the business activities of the Group were identified under the heading 'Key Group risk factors', set out on pages 37 to 44 of the Annual Report for the year ended 31 December 2015, a copy of which is available on the Group's website www.bat.com. The Principal Group risks and applicable sub-categories are summarised under the headings of:

- Marketplace: Competition from illicit tobacco trade; Market size reduction and consumer down-trading; Inability to obtain price increases and impact of increases on consumer affordability;
- Excise and tax: Significant excise increases or structure changes; Disputed taxes, interest and penalties;
- Finance: Foreign exchange rate exposures; Solvency and liquidity;
- Operations: Geopolitical tensions; Injury, illness or death in the workplace;
- Regulation: Tobacco regulation inhibits growth strategy;
- People: Inability to recruit or retain talent; and
- Litigation.

In the view of the Board, the key risks and uncertainties for the remaining six months of the financial year continue to be those set out in the above section of the 2015 Annual Report. These should be read in the context of the cautionary statement regarding forward looking statements on page 38 of this Half-Year Report. Specifically the Board does not consider the recent vote in the UK to exit the European Union will materially impact the Group's underlying business and as such will not necessitate any change to the Group's identified risks.

GOING CONCERN

A full description of the Group's business activities, its financial position, cash flows, liquidity position, facilities and borrowings position together with the factors likely to affect its future development, performance and position, as well as the risks associated with the business, are set out in the Strategic Report and in the notes to the accounts, all of which are included in the 2015 Annual Report that is available on the Group's website, www.bat.com. This Half-Year Report provides updated information regarding the business activities for the six months to 30 June 2016 and of the financial position, cash flow and liquidity position at 30 June 2016.

The Group has, at the date of this report, sufficient financing available for its estimated existing requirements for at least the next twelve months. This, together with the proven ability to generate cash from trading activities, the performance of the Group's Global Drive Brands, its leading market positions in a number of countries and its broad geographical spread, as well as numerous contracts with established customers and suppliers across different geographical areas and industries, provides the Directors with the confidence that the Group is well placed to manage its business risks successfully in the context of the current financial conditions and the general outlook in the global economy.

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

NEW NON-EXECUTIVE DIRECTOR AND BOARD COMMITTEE CHANGES

In a separate announcement today, Dr Marion Helmes has been appointed as a Non-Executive Director of the Company with effect from 1 August 2016. Dr Helmes brings with her a wealth of international business skills and experience which includes recent senior executive roles at Celesio AG, the German healthcare and pharmaceutical company. Dr Helmes will serve as a member of the Audit Committee and will also sit on the Nominations Committee.

Christine Morin-Postel (Senior Independent Director, Chair of the Audit Committee and a member of the Nominations Committee) will be retiring as a Non-Executive Director with effect from 6 December 2016, having served on the Board since 2007 and as Senior Independent Director since 2013.

Kieran Poynter will take over Christine's role as Chair of the Audit Committee with effect from 1 October 2016. Kieran joined the Board as a Non-Executive Director in 2010 and has previously chaired the Audit Committee. He is currently Chair of the Remuneration Committee and will stand down from this role with effect from 1 October 2016.

Dimitri Panayotopoulos has been appointed as Chair of the Remuneration Committee with effect from 1 October 2016. Dimitri joined the Board as a Non-Executive Director in 2015.

A separate announcement regarding the new Senior Independent Director will be made in due course.

As a consequence of the above changes, the memberships of the Company's Audit Committee and Remuneration Committee (all comprising Non-Executive Directors) are as follows with effect from 1 October 2016:

Audit Committee
Kieran Poynter (Chair)
Marion Helmes
Pedro Malan
Christine Morin-Postel (until 6 December 2016)
Gerry Murphy

Remuneration Committee
Dimitri Panayotopoulos (Chair)
Sue Farr
Ann Godbehere
Savio Kwan

DIRECTORS' RESPONSIBILITY STATEMENT

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

The Directors of British American Tobacco p.l.c. are as listed on pages 48 and 49 in the British American Tobacco Annual Report for the year ended 31 December 2015 with the exception of Karen de Segundo and Richard Tubb who retired as Directors at the conclusion of the Annual General Meeting on 27 April 2016.

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

For and on behalf of the Board of Directors:

Richard Burrows	Ben Stevens
Chairman	Finance Director
27 July 2016	

ENQUIRIES:

INVESTOR RELATIONS:

Mike Nightingale	020 7845 1180
Rachael Brierley	020 7845 1519
Sabina Marshman	020 7845 1781

PRESS OFFICE:

Will Hill / Anna Vickerstaff	020 7845 2888

Webcast and Conference Call

A live webcast of the results is available via www.bat.com/ir to be held on Thursday 28th July 2016, at 09.30 BST.
If you wish to listen to the presentation via a conference call facility please use the dial in details below:
Dial in number +44 (0) 20 3139 4830
Please quote Passcode: 96105265#

Conference Call Playback Facility

A replay of the conference call will also be available from 1:00 p.m. for 48 hours.
Dial in number: +44 (0) 20 3426 2807
Please quote passcode: 669212#

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

We have been engaged by British American Tobacco p.l.c. to review the condensed set of financial statements in the half-year report for the six months ended 30 June 2016 which comprises the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Changes in Equity, the Group Balance Sheet, the Group Cash Flow Statement and the related explanatory notes. We have read the other information contained in the half-year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-year report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-year financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-year report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-year report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Mark Baillache

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London E14 5GL
27 July 2016

GROUP INCOME STATEMENT - unaudited

	6 months to 30.6.16 £m	6 months to 30.6.15 £m	Year to 31.12.15 £m
Gross turnover (including duty, excise and other taxes of £14,364 million (30.6.15: £13,506 million; 31.12.15: £27,896 million))	**21,033**	19,904	41,000
Revenue	**6,669**	6,398	13,104
Raw materials and consumables used	**(1,630)**	(1,489)	(3,217)
Changes in inventories of finished goods and work in progress	**8**	31	184
Employee benefit costs	**(1,034)**	(973)	(2,039)
Depreciation, amortisation and impairment costs	**(253)**	(197)	(428)
Other operating income	**49**	75	225
Other operating expenses	**(1,596)**	(1,498)	(3,272)
Profit from operations	**2,213**	2,347	4,557
Analysed as:			
– adjusted profit from operations	**2,452**	2,507	4,992
– restructuring and integration costs	**(161)**	(133)	(367)
– amortisation of trademarks and similar intangibles	**(58)**	(26)	(65)
– Fox River	**(20)**	-	-
– Flintkote	**-**	(1)	(3)
	2,213	2,347	4,557
Net finance (costs)/income	**(233)**	351	62
Finance income	**27**	633	646
Finance costs	**(260)**	(282)	(584)
Share of post-tax results of associates and joint ventures	**1,446**	799	1,236
Analysed as:			
– adjusted share of post-tax results of associates and joint ventures	**605**	419	943
– issue of shares and change in shareholding	**13**	25	22
– gain on disposal of assets	**890**	406	371
– other (see pages 25 and 26)	**(62)**	(51)	(100)
	1,446	799	1,236
Profit before taxation	**3,426**	3,497	5,855
Taxation on ordinary activities	**(685)**	(713)	(1,333)
Profit for the period	**2,741**	2,784	4,522
Attributable to:			
Owners of the parent	**2,671**	2,645	4,290
Non-controlling interests	**70**	139	232
	2,741	2,784	4,522
Earnings per share			
Basic	**143.8p**	142.4p	230.9p
Diluted	**143.4p**	142.1p	230.3p
Adjusted diluted	**111.1p**	100.2p	208.4p

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

The accompanying notes on pages 8, 9 and 21 to 38 form an integral part of this condensed consolidated financial information.

GROUP STATEMENT OF COMPREHENSIVE INCOME - unaudited

	6 months to		Year to
	30.6.16	30.6.15	31.12.15
	£m	£m	£m
Profit for the period (page 14)	**2,741**	2,784	4,522
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:	**995**	(458)	(849)
Differences on exchange			
– subsidiaries	**1,124**	(530)	(1,006)
– associates	**764**	(56)	336
Cash flow hedges			
– net fair value (losses)	**(226)**	(77)	(99)
– reclassified and reported in profit for the period	**106**	15	15
– reclassified and reported in net assets	**(22)**	16	(45)
Available-for-sale investments of associates			
– net fair value (losses)/gains	**(7)**	(7)	15
– reclassified and reported in profit for the year	**-**	-	(10)
Net investment hedges			
– net fair value (losses)/gains	**(644)**	97	(118)
– differences on exchange on borrowings	**(100)**	72	42
Tax on items that may be reclassified	**-**	12	21
Items that will not be reclassified subsequently to profit or loss:	**(427)**	139	263
Retirement benefit schemes			
– net actuarial (losses)/gains in respect of subsidiaries	**(459)**	139	283
– surplus recognition and minimum funding obligations in respect of subsidiaries	**(1)**	(6)	-
– actuarial (losses)/gains in respect of associates net of tax	**(45)**	28	3
Tax on items that will not be reclassified	**78**	(22)	(23)
Total other comprehensive income for the period, net of tax	**568**	(319)	(586)
Total comprehensive income for the period, net of tax	**3,309**	2,465	3,936
Attributable to:			
Owners of the parent	**3,209**	2,358	3,757
Non-controlling interests	**100**	107	179
	3,309	2,465	3,936

The accompanying notes on pages 8, 9 and 21 to 38 form an integral part of this condensed consolidated financial information

GROUP STATEMENT OF CHANGES IN EQUITY - unaudited

At 30 June 2016

	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
	Attributable to owners of the parent						
Balance at 1 January 2016	**507**	**3,927**	**(1,294)**	**1,754**	**4,894**	**138**	**5,032**
Total comprehensive income for the period (page 15)	**-**	**-**	**965**	**2,244**	**3,209**	**100**	**3,309**
Profit for the period (page 14)	**-**	**-**	**-**	**2,671**	**2,671**	**70**	**2,741**
Other comprehensive income for the period (page 15)	**-**	**-**	**965**	**(427)**	**538**	**30**	**568**
Employee share options							
– value of employee services	**-**	**-**	**-**	**27**	**27**	**-**	**27**
– proceeds from shares issued	**-**	**2**	**-**	**-**	**2**	**-**	**2**
Dividends and other appropriations							
– ordinary shares	**-**	**-**	**-**	**(1,950)**	**(1,950)**	**-**	**(1,950)**
– to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**(92)**	**(92)**
Purchase of own shares							
– held in employee share ownership trusts	**-**	**-**	**-**	**(65)**	**(65)**	**-**	**(65)**
Non-controlling interests – acquisitions	**-**	**-**	**-**	**4**	**4**	**(4)**	**-**
Other movements	**-**	**-**	**-**	**(11)**	**(11)**	**-**	**(11)**
Balance at 30 June 2016	**507**	**3,929**	**(329)**	**2,003**	**6,110**	**142**	**6,252**

At 30 June 2015

	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
	Attributable to owners of the parent						
Balance at 1 January 2015	507	3,923	(498)	1,578	5,510	304	5,814
Total comprehensive income for the period (page 15)	-	-	(426)	2,784	2,358	107	2,465
Profit for the period (page 14)	-	-	-	2,645	2,645	139	2,784
Other comprehensive income for the period (page 15)	-	-	(426)	139	(287)	(32)	(319)
Employee share options							
– value of employee services	-	-	-	22	22	-	22
– proceeds from shares issued	-	3	-	-	3	-	3
Dividends and other appropriations							
– ordinary shares	-	-	-	(1,862)	(1,862)	-	(1,862)
– to non-controlling interests	-	-	-	-	-	(147)	(147)
Purchase of own shares							
– held in employee share ownership trusts	-	-	-	(46)	(46)	-	(46)
Non-controlling interests – acquisitions	-	-	-	(13)	(13)	(3)	(16)
Other movements	-	-	-	15	15	-	15
Balance at 30 June 2015	507	3,926	(924)	2,478	5,987	261	6,248

GROUP STATEMENT OF CHANGES IN EQUITY - unaudited cont...

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 period (page 15)	-	-	(796)	4,553	3,757	179	3,936
Profit for the period (page 14)	-	-	-	4,290	4,290	232	4,522
Other comprehensive income for the period (page 15)	-	-	(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

The accompanying notes on pages 8, 9 and 21 to 38 form an integral part of this condensed consolidated financial information

GROUP BALANCE SHEET - unaudited

	30.6.16 £m	30.6.15 £m	31.12.15 £m
Assets			
Non-current assets			
Intangible assets	**11,780**	10,128	10,436
Property, plant and equipment	**3,274**	2,831	3,021
Investments in associates and joint ventures	**8,726**	6,596	6,938
Retirement benefit assets	**273**	218	408
Deferred tax assets	**383**	274	326
Trade and other receivables	**409**	181	248
Available-for-sale investments	**42**	33	37
Derivative financial instruments	**663**	243	287
Total non-current assets	**25,550**	20,504	21,701
Current assets			
Inventories	**4,725**	3,766	4,247
Income tax receivable	**81**	77	74
Trade and other receivables	**3,390**	2,516	3,266
Available-for-sale investments	**61**	50	35
Derivative financial instruments	**532**	307	209
Cash and cash equivalents	**1,882**	1,417	1,963
	10,671	8,133	9,794
Assets classified as held-for-sale	**18**	38	20
Total current assets	**10,689**	8,171	9,814
Total assets	**36,239**	28,675	31,515

The accompanying notes on pages 8, 9 and 21 to 38 form an integral part of this condensed consolidated financial information

GROUP BALANCE SHEET - unaudited cont…

	30.6.16 £m	30.6.15 £m	31.12.15 £m
Equity			
Capital and reserves			
Share capital	**507**	507	507
Share premium, capital redemption and merger reserves	**3,929**	3,926	3,927
Other reserves	**(349)**	(924)	(1,294)
Retained earnings	**2,023**	2,478	1,754
Owners of the parent	**6,110**	5,987	4,894
after deducting			
– cost of treasury shares	**(5,069)**	(5,060)	(5,049)
Non-controlling interests	**142**	261	138
Total equity	**6,252**	6,248	5,032
Liabilities			
Non-current liabilities			
Borrowings	**14,888**	14,131	14,806
Retirement benefit liabilities	**925**	701	653
Deferred tax liabilities	**657**	513	563
Other provisions for liabilities and charges	**312**	280	296
Trade and other payables	**1,020**	89	1,029
Derivative financial instruments	**398**	128	130
Total non-current liabilities	**18,200**	15,842	17,477
Current liabilities			
Borrowings	**5,343**	1,341	2,195
Income tax payable	**396**	435	414
Other provisions for liabilities and charges	**306**	203	273
Trade and other payables	**5,080**	4,433	5,937
Derivative financial instruments	**662**	173	187
Total current liabilities	**11,787**	6,585	9,006
Total equity and liabilities	**36,239**	28,675	31,515

The accompanying notes on pages 8, 9 and 21 to 38 form an integral part of this condensed consolidated financial information

GROUP CASH FLOW STATEMENT - unaudited

	6 months to		Year to
	30.6.16	30.6.15	31.12.15
	£m	£m	£m
Cash flows from operating activities			
Cash generated from operations (page 29)	**1,350**	1,841	5,400
Dividends received from associates	**324**	201	593
Tax paid	**(620)**	(687)	(1,273)
Net cash generated from operating activities	**1,054**	1,355	4,720
Cash flows from investing activities			
Interest received	**26**	32	64
Purchases of property, plant and equipment	**(120)**	(154)	(483)
Proceeds on disposal of property, plant and equipment	**23**	10	108
Purchases of intangibles	**(29)**	(52)	(118)
Purchases of investments	**(75)**	(57)	(99)
Proceeds on disposals of investments	**8**	-	45
Investment in associates and acquisition of subsidiaries	**(53)**	(3,015)	(3,508)
Net cash used in investing activities	**(220)**	(3,236)	(3,991)
Cash flows from financing activities			
Interest paid	**(316)**	(265)	(596)
Interest element of finance lease rental payments	**(2)**	(1)	(1)
Capital element of finance lease rental payments	**(3)**	13	(2)
Proceeds from issue of shares to owners of the parent	**2**	3	4
Proceeds from increases in and new borrowings	**2,327**	5,736	6,931
Movements relating to derivative financial instruments	**133**	106	201
Purchases of own shares held in employee share ownership trusts	**(65)**	(46)	(46)
Reductions in and repayments of borrowings	**(1,013)**	(1,884)	(2,028)
Dividends paid to owners of the parent	**(1,950)**	(1,862)	(2,770)
Purchases of non-controlling interests	**(70)**	(16)	(1,677)
Dividends paid to non-controlling interests	**(94)**	(140)	(235)
Net cash generated (used in)/from financing activities	**(1,051)**	1,644	(219)
Net cash flows (used in)/generated in operating, investing and financing activities	**(217)**	(237)	510
Differences on exchange	**(53)**	(100)	(272)
Decrease in net cash and cash equivalents in the period	**(270)**	(337)	238
Net cash and cash equivalents at 1 January	**1,730**	1,492	1,492
Net cash and cash equivalents at period end	**1,460**	1,155	1,730

The accompanying notes on pages 8, 9 and 21 to 38 form an integral part of this condensed consolidated financial information

The net cash outflows relating to adjusting items on pages 24 and 25, including as related to the Quebec Class Action are £238 million, (30 June 2015: £159 million, 31 December 2015: £577 million). The receipt in relation to FII GLO in 2015 from HMRC was £963 million, and is included in 'Cash generated from operations' as shown on page 29.

ACCOUNTING POLICIES AND BASIS OF PREPARATION

The condensed consolidated financial information comprises the unaudited interim financial information for the six months to 30 June 2016 and 30 June 2015, together with the audited results for the year ended 31 December 2015. This condensed consolidated financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure Guidance and Transparency Rules issued by the Financial Conduct Authority. The condensed consolidated financial information is unaudited but has been reviewed by the auditor and its review report is set out on page 13.

The condensed consolidated financial information does not constitute statutory accounts within the meaning of the UK Companies Act 2006 and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2015, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The annual consolidated financial statements for 2015 represent the statutory accounts for that year and have been filed with the Registrar of Companies. The auditor's report on those statements was unqualified and did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 (2) or (3) of the Companies Act 2006.

This condensed consolidated financial information has 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 2015.

The preparation of this condensed consolidated financial information requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the date of this condensed consolidated financial information. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgement at the date of the condensed consolidated financial information. The key estimates and assumptions were the same as those that applied to the consolidated financial information for the year ended 31 December 2015, apart from updating the assumptions used to determine the carrying value of liabilities for retirement benefit schemes. In the future, actual experience may deviate from these estimates and assumptions, which could affect this condensed consolidated financial information as the original estimates and assumptions are modified, as appropriate, in the period in which the circumstances change.

NON-GAAP MEASURES

In the reporting of financial information, the Group uses certain measures that are not required under IFRS, the generally accepted accounting principles (GAAP) under which the Group reports. The Group believes that these additional measures, which are used internally, are useful to users of the financial information in helping them understand the underlying business performance.

The principal non-GAAP measures which the Group uses are adjusted profit from operations and adjusted diluted earnings per share, which 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 which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance. While the disclosure of adjusting items is not required by IFRS, these items are separately disclosed either as memorandum information on the face of the income statement and in the segmental analysis, or in the notes to the financial information 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. The Group also includes organic measures of volume, revenue and adjusted profit from operations to ensure a full understanding of the underlying operating performance of the Group, before the impact of acquisitions.

All adjustments to profit from operations and diluted earnings per share are explained in this announcement. See pages 24 to 26 and page 31.

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 23.

The Group prepares an alternative cash flow, which includes a measure of 'free cash flow', to illustrate the cash flows before transactions relating to borrowings. A net debt summary is also provided. See page 28. The Group publishes gross turnover as an additional disclosure to indicate the impact of duty, excise and other taxes.

Due to the secondary listing of the ordinary shares of British American Tobacco p.l.c. on the main board of the JSE Limited (JSE) in South Africa, the Group is required to present headline earnings per share and diluted headline earnings per share, as alternative measures of earnings per share, calculated in accordance with Circular 2/2015 'Headline Earnings' issued by the South African Institute of Chartered Accountants. These are shown on page 32.

ANALYSIS OF REVENUE BY SEGMENT

	30 June 2016					30 June 2015
	Reported revenue £m	Impact of exchange £m	Revenue @ CC[1] £m	Impact of Acquisitions £mn	Adj Organic at CC[1] £m	Reported revenue £m
Asia-Pacific	**1,987**	**(64)**	**1,923**		**1,923**	1,893
Americas	**1,297**	**230**	**1,527**		**1,527**	1,384
Western Europe	**1,729**	**(86)**	**1,643**	**(90)**	**1,553**	1,463
EEMEA	**1,656**	**151**	**1,807**	**(26)**	**1,781**	1,658
Total	**6,669**	**231**	**6,900**	**(116)**	**6,784**	6,398

ANALYSIS OF PROFIT FROM OPERATIONS AND DILUTED EARNINGS PER SHARE BY SEGMENT

	30 June 2016						
	Reported £m	Adjusting Items £m	Adjusted £m	Impact of exchange £m	Adjusted at CC[1] £m	Impact of Acquisitions £m	Adj Organic at CC[1] £m
Asia-Pacific	**700**	**61**	**761**	**(5)**	**756**	**-**	**756**
Americas	**484**	**52**	**536**	**82**	**618**	**-**	**618**
Western Europe	**516**	**74**	**590**	**(31)**	**559**	**(4)**	**555**
EEMEA	**533**	**32**	**565**	**53**	**618**	**(1)**	**617**
Total Region	**2,233**	**219**	**2,452**	**99**	**2,551**	**(5)**	**2,546**
Non-tobacco litigation:							
Fox River	**(20)**	**20**	**-**	**-**	**-**	**-**	**-**
Profit from operations	**2,213**	**239**	**2,452**	**99**	**2,551**	**(5)**	**2,546**
Net finance (costs)/income	**(233)**	**(20)**	**(253)**	**6**	**(247)**		
Associates and joint ventures	**1,446**	**(841)**	**605**	**(25)**	**580**		
Profit before tax	**3,426**	**(622)**	**2,804**	**80**	**2,884**		
Taxation	**(685)**	**27**	**(658)**	**(33)**	**(691)**		
Non-controlling interest	**(70)**	**(6)**	**(76)**	**(1)**	**(77)**		
Profit attributable to shareholders	**2,671**	**(601)**	**2,070**	**46**	**2,116**		
Diluted number of shares (m)	**1,863**		**1,863**		**1,863**		
Diluted earnings per share (pence)	**143.4p**		**111.1p**		**113.6p**		

	30 June 2015		
	Reported £m	Adjusting items £m	Adjusted £m
Asia-Pacific	726	50	776
Americas	588	34	622
Western Europe	473	46	519
EEMEA	561	29	590
Total Region	2,348	159	2,507
Non-tobacco litigation:			
Flintkote	(1)	1	-
Profit from operations	2,347	160	2,507
Net finance income/(costs)	351	(571)	(220)
Associates and joint ventures	799	(380)	419
Profit before tax	3,497	(791)	2,706
Taxation	(713)	13	(700)
Non-controlling interest	(139)	(2)	(141)
Profit attributable to shareholders	2,645	(780)	1,865
Diluted number of shares (m)	**1,862**		**1,862**
Diluted earnings per share (pence)	**142.1p**		**100.2p**

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 22.

The Fox River and Flintkote charges have not been allocated to any segment as they neither relate to current operations nor to the tobacco business. They are not included in the segmental performance as reported to the chief operating decision maker.

ADJUSTING ITEMS INCLUDED IN PROFIT FROM OPERATIONS

Adjusting items are significant items in the profit from operations which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance. See page 22. 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 is now substantially complete. 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:

	6 months to		Year to
	30.6.16	30.6.15	31.12.15
	£m	£m	£m
Employee benefit costs	**72**	67	159
Depreciation and impairment costs	**18**	-	26
Other operating expenses	**71**	66	228
Other operating income	**-**	-	(46)
Total	**161**	133	367

Restructuring and integration costs in the six months to 30 June 2016 principally relate to the implementation of a new operating model and the cost of packages 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 Malaysia and Brazil.

Restructuring and integration costs in the six months to 30 June 2015 principally related to the implementation of a new operating model and the cost of packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group. The costs also covered the factory closure and downsizing activities in Australia, and restructurings in Indonesia, South Korea, Canada and Malaysia.

For the year ended 31 December 2015, restructuring and integration costs principally included the activities referred to in respect of the six months to 30 June 2015. In addition, the costs also covered restructurings in Switzerland and Germany and certain costs related to the acquisitions undertaken (including TDR in Croatia).

Other operating income in 2015 includes gains from the sale of land and buildings in Australia.

(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 £58 million is included in depreciation, amortisation and impairment costs in the profit from operations for the six months to 30 June 2016 (30 June 2015: £26 million). For the year to 31 December 2015, the amortisation charge was £65 million.

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 cleanup 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, in the six months to 30 June 2016, £9 million has been paid (30 June 2015: £7 million, 31 December 2015: £17 million). The Fox River provision has been reviewed and increased by £20 million, mainly driven by the devaluation in Sterling against the US Dollar.

In July 2016, the High Court ruled in the Group's favour that a dividend of €135 million paid by Windward to Sequana in May 2009 was a transaction made with the intention of putting assets beyond the reach of the Group and of negatively impacting the Group's interests. A further hearing is expected later in the year to determine the remedy to be granted on the Group's successful claim. Assuming leave to appeal is granted, this case is expected to proceed to appeal on the merits in 2017. Due to the uncertain nature of any future recoverability, the Group, in line with IFRS, has not recognised this in the current period, treating it as a contingent asset. Any future recovery will be treated as adjusting income.

ADJUSTING ITEMS INCLUDED IN NET FINANCING COSTS

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 and are discussed on page 8.

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 31.

In the six months to 30 June 2016:

The Group's interest in ITC decreased from 30.06% to 29.99% 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 £13 million, which is treated as a deemed partial disposal and included in the income statement.

RAI recognised a gain on the sale of the international rights to Natural American Spirit of US$4,861 million. The Group's share of this net gain amounted to £890 million (net of tax).

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$28 million, the Group's share of which is £5 million (net of tax), costs in respect of a number of Engle progeny lawsuits and other tobacco litigation charges that amounted to US$61 million, the Group's share of which is £11 million (net of tax). Also included are financing costs of US$243 million connected with the acquisition of Lorillard Inc. the Group's share of which is £46 million (net of tax).

In the six months to 30 June 2015:

The Group's interest in ITC decreased from 30.26% to 30.11% 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 £25 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$3,499 million. The Group's share of this net gain amounted to £406 million (net of tax), which at the time was subject to the accounting for the Lorillard Inc. acquisition.

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$104 million, the Group's share of which is £18 million (net of tax), costs in respect of a number of Engle progeny lawsuits and other tobacco litigation charges that amounted to US$130 million, the Group's share of which is £22 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 £11 million (net of tax), respectively, and income of US$70 million related to the Non-Participating Manufacturer (NPM) Adjustment claims (see below) of the two states no longer challenging the findings of non-diligence entered against them by an Arbitration Panel, the Group's share of this income amounted to £12 million (net of tax).

For the year ended 31 December 2015:

In 2015, the Group's interest in 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).

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.

ADJUSTING ITEMS INCLUDED IN TAXATION

IFRS requires entities to provide deferred taxation on the undistributed earnings of associates and joint-ventures. The additional tax charge arising on the Group's share of the gain on the sale of the international rights of Natural American Spirit in 2016, and the divestiture of certain assets to ITG Brands LLC in 2015, has been discussed on page 9, along with the tax on adjusting items.

CASH FLOW AND NET DEBT MOVEMENTS

(a) Alternative cash flow

The IFRS cash flow statement on page 20 includes all transactions affecting cash and cash equivalents, including financing. The alternative cash flow statement below, at current rates of exchange, is presented to illustrate the cash flows before transactions relating to borrowings.

	6 months to		Year to
	30.6.16	30.6.15	31.12.15
	£m	£m	£m
Adjusted profit from operations (page 14)	**2,452**	2,507	4,992
Depreciation, amortisation and impairment	**177**	171	338
Other non-cash items in operating profit	**17**	3	(1)
Profit from operations before depreciation, amortisation and impairment	**2,646**	2,681	5,329
Increase in working capital	**(1,017)**	(609)	(263)
Net capital expenditure	**(126)**	(196)	(483)
Gross capital expenditure	**(149)**	(206)	(591)
Sale of fixed assets	**23**	10	108
Operating cash flow	**1,503**	1,876	4,583
Pension funds' shortfall funding	**(40)**	(70)	(148)
Net interest paid	**(276)**	(252)	(522)
Tax paid	**(620)**	(687)	(1,273)
Franked Investment Income Group Litigation Order (FII GLO)	**-**	-	963
Dividends paid to non-controlling interests	**(94)**	(140)	(235)
Cash generated from operations	**473**	727	3,368
Memo: Cash generated from operations at constant rates of exchange	**412**		
Restructuring costs	**(115)**	(154)	(405)
Non-tobacco litigation: Flintkote and Fox River	**(9)**	(8)	(20)
Tobacco litigation: Quebec (deposit)	**(114)**	-	(55)
Dividends and other appropriations from associates	**324**	201	593
Free cash flow	**559**	766	3,481
Dividends paid to shareholders	**(1,950)**	(1,862)	(2,770)
Net investment activities	**(130)**	(3,031)	(5,192)
Net flow from share schemes and other	**(175)**	(110)	(52)
Net cash flow	**(1,696)**	(4,237)	(4,533)
External movements on net debt			
Exchange rate effects*	**(1,241)**	417	(112)
Change in accrued interest and other	**(4)**	109	16
Change in net debt	**(2,941)**	(3,711)	(4,629)
Opening net debt	**(14,794)**	(10,165)	(10,165)
Closing net debt	**(17,735)**	(13,876)	(14,794)

* Including movements in respect of debt related derivatives.

Cash flow and net debt movements cont…

In the alternative cash flow presented on page 27, operating cash flow was lower by £373 million or 19.9% to £1,503 million, largely due to increases in working capital due to the timing of excise payments, the impact of the implementation of the TPD and the timing of leaf purchases. Free cash flow fell by £207 million or 27.0% to £559 million as lower payments related to taxation, a reduction in dividends to non-controlling interests following the completion of the buy-out of the Souza Cruz minority and an increase in dividends from associates were offset by working capital movements described above and payments on deposit related to the Quebec Class Action.

The conversion of adjusted operating profit to operating cash flow was 61.3% (2015: 74.8%). The ratio of free cash flow per share to adjusted diluted earnings per share fell to 27.0% (2015: 41.1%).

Below free cash flow, the principal cash outflows for the six months to 30 June 2016 comprise the payment of the prior year final dividend which was £88 million higher at £1,950 million.

During 2016, the cash outflow from net investing activities fell significantly to £130 million, with 2015 (£3,031 million) largely reflecting the investment in RAI.

The other net flows in 2016 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 £1,696 million (2015: £4,237 million). After taking account of other changes, especially exchange rate movements, total net debt was £17,735 million at 30 June 2016 (30 June 2015: £13,876 million and 31 December 2015: £14,794 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:

	6 months to		Year to
	30.6.16	30.6.15	31.12.15
	£m	£m	£m
Net debt due within one year:			
Borrowings	**5,343**	1,341	2,195
Related derivatives	**(215)**	(32)	(46)
Cash and cash equivalents	**(1,882)**	(1,417)	(1,963)
Current available-for-sale investments	**(61)**	(50)	(35)
	3,185	(158)	151
Net debt due beyond one year:			
Borrowings	**14,888**	14,131	14,806
Related derivatives	**(338)**	(97)	(163)
	14,550	14,034	14,643
Total net debt	**17,735**	13,876	14,794

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 20 includes the following items:

	6 months to		Year to
	30.6.16	30.6.15	31.12.15
	£m	£m	£m
Profit from operations	**2,213**	2,347	4,557
Adjustments for:			
Depreciation, amortisation and impairment	**253**	197	428
Decrease/(Increase) in inventories	**118**	24	(520)
Decrease/(Increase) in trade and other receivables	**219**	59	(508)
(Increase) in amounts receivable in respect of the Quebec Class Action	**(114)**	-	(55)
(Decrease)/Increase in trade and other payables	**(1,323)**	(713)	732
FII GLO receipts (see page 36)	**-**	-	963
(Decrease) in net retirement benefit liabilities	**(81)**	(96)	(191)
Increase in provisions for liabilities and charges	**2**	21	48
Other non-cash items	**63**	2	(54)
Cash generated from operations	**1,350**	1,841	5,400

(d) IFRS net cash and cash equivalents

The net cash and cash equivalents in the IFRS Group cash flow statement on page 20 comprise:

	6 months to		Year to
	30.6.16	30.6.15	31.12.15
	£m	£m	£m
Cash and cash equivalents per balance sheet	**1,882**	1,417	1,963
Accrued interest	**(1)**	(1)	(1)
Overdrafts	**(421)**	(261)	(232)
Net cash and cash equivalents	**1,460**	1,155	1,730

(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 30 June 2016, the average centrally managed debt maturity was 7.4 years (30 June 2015: 7.8 years; 31 December 2015: 7.9 years) and the highest proportion of centrally managed debt maturing in a single rolling 12-month period was 17.8% (30 June 2015: 13.8%; 31 December 2015: 15.0%).

It is Group policy that short-term sources of funds (including drawing under both the US$3 billion US and £1 billion euro commercial paper programmes) are backed by undrawn committed lines of credit and cash. At 30 June 2016, £1,705 million of commercial paper was outstanding (30 June 2015: £238 million; 31 December 2015: £505 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.

Cash flow and net debt movements cont…

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.

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 at both 30 June 2015 and 31 December 2015. 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 36. 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 2016, a one year extension option was exercised for the £3 billion main bank facility, extending the final maturity to May 2021. The facility was undrawn as at 30 June 2016.

In March 2016, a US$300 million bond was repaid.

In July 2016, the Group issued a £500 million bond maturing in 2021.

On 19 July 2016, the Group exercised the make-whole provision for its $700mn bond originally issued in 2008 pursuant to rule 144A. The bond will be redeemed on 18 August 2016, prior to its original maturity date of 15 November 2018.

EARNINGS PER SHARE

Adjusted diluted earnings per share increased by 10.9% to 111.1p (2015: 100.2p), principally as a result of good adjusted operating profit growth, higher profit from associates and lower minority interest following the buy-out of the Souza Cruz minority, offsetting the continued adverse exchange rate movements on a transactional and translational level. At constant rates, adjusted diluted earnings per share increased by 13.4% to 113.6p (2015: 100.2p). Basic earnings per share were 1.0% higher at 143.8p (2015: 142.4p) benefiting from gains as a result of the sale of the international brand rights to Natural American Spirit by the Group's associate RAI and lower minority interest, more than offsetting the adverse impact of foreign exchange.

	6 months to		Year to
	30.6.16	30.6.15	31.12.15
	pence	pence	pence
Earnings per share			
- basic	**143.8**	142.4	230.9
- diluted	**143.4**	142.1	230.3
Adjusted earnings per share			
- basic	**111.4**	100.4	208.9
- diluted	**111.1**	100.2	208.4
Headline earnings per share			
- basic	**99.5**	119.4	210.4
- diluted	**99.2**	119.1	209.8

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 24 to 26):

	6 months to		Year to
	30.6.16	30.6.15	31.12.15
	pence	pence	pence
Unadjusted diluted earnings per share	**143.4**	142.1	230.3
Effect of restructuring and integration costs	**7.1**	6.2	15.7
Effect of amortisation of trademarks and similar intangibles	**2.6**	1.2	3.0
Effect of Fox River	**1.1**	-	-
Effect of Flintkote	**-**	0.1	0.2
Effect of associates' adjusting items	**(45.1)**	(20.4)	(15.7)
Effect of adjusting items in net finance costs	**(1.1)**	(30.7)	(26.3)
Effect of adjusting items in respect of deferred taxation	**3.1**	1.7	1.2
Adjusted diluted earnings per share	**111.1**	100.2	208.4
Effect of exchange rate movements	**2.5**		
Adjusted diluted earnings per share (at constant rates)	**113.6**		

Earnings Per Share cont…

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

	6 months to		Year to
	30.6.16	30.6.15	31.12.15
	pence	pence	pence
Unadjusted diluted earnings per share	**143.4**	142.1	230.3
Effect of impairment of intangibles and property, plant and equipment and held-for-sale assets	**1.2**	0.5	1.1
Effect of gains on disposal of property, plant and equipment and held-for-sale assets	**-**	(0.3)	(2.2)
Effect of share of associates' gain on disposal of held-for-sale assets	**(44.6)**	(21.8)	(18.7)
Effect of issue of shares and change in shareholding in associate	**(0.7)**	(1.4)	(1.2)
Other	**(0.1)**	-	0.5
Diluted headline earnings per share	**99.2**	119.1	209.8
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 25); this measure is in addition to and not mandated by the JSE Listing Requirements			
Headline earnings per share as amended	**100.3**	86.8	183.3

The earnings per share are based on:

	30.6.16		30.6.15		31.12.15	
	Earnings	**Shares**	Earnings	Shares	Earnings	Shares
	£m	**m**	£m	m	£m	m
Earnings per share						
- basic	**2,671**	**1,858**	2,645	1,858	4,290	1,858
- diluted	**2,671**	**1,863**	2,645	1,862	4,290	1,863
Adjusted earnings per share						
- basic	**2,070**	**1,858**	1,865	1,858	3,882	1,858
- diluted	**2,070**	**1,863**	1,865	1,862	3,882	1,863
- diluted, at constant rates	**2,116**	**1,863**				
Headline earnings per share						
- basic	**1,849**	**1,858**	2,218	1,858	3,909	1,858
- diluted	**1,849**	**1,863**	2,218	1,862	3,909	1,863

DIVIDENDS

Declaration

The Board has declared an interim dividend of 51.3 pence per ordinary share of 25p for the six months ended 30 June 2016. The interim dividend will be payable on 28 September 2016 to shareholders registered on either the UK main register or the South Africa branch register on 19 August 2016 (the record date).

Key Dates and South Africa Branch Register

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

Event	Date 2016
Last Day to Trade (LDT) cum dividend (JSE)	Tuesday 16 August
Shares commence trading ex dividend (JSE)	Wednesday 17 August
Shares commence trading ex dividend (LSE)	Thursday 18 August
Record date (JSE and LSE)	Friday 19 August
Payment date	Wednesday 28 September
No removal requests permitted between the UK main register and the South Africa branch register	Thursday 28 July to Friday 19 August (inclusive)
No transfers permitted between the UK main register and the South Africa branch register	Wednesday 17 August to Friday 19 August (inclusive)
No shares may be dematerialised or rematerialised on the South Africa branch register	Wednesday 17 August to Friday 19 August (inclusive)

As the Group reports in sterling, dividends are declared and payable in sterling except for shareholders on the branch register in South Africa whose dividends are payable in rand. A rate of exchange of £:R = 18.87280 as at 26 July 2016 (the closing rate on that date as quoted by Bloomberg), results in an equivalent interim dividend of 968.17464 SA cents per ordinary share.

South Africa Branch Register: Dividends Tax Information

South Africa Dividends Tax of 145.22620 SA cents per ordinary share will be withheld from the gross interim 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 822.94844 SA cents per ordinary share. The interim dividend is regarded as a 'foreign dividend' for the purposes of South Africa Dividends Tax.

At the close of business on 26 July 2016 (the latest practicable date prior to the date of the declaration of the interim dividend), British American Tobacco p.l.c. (the "Company") had a total of 1,864,338,615 ordinary shares in issue (excluding treasury shares). The Company held 162,645,590 ordinary shares in treasury giving a total issued share capital of 2,026,984,205 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.

OTHER CHANGES IN THE GROUP

On 20 April 2016, the Group completed the acquisition of 100% of Ten Motives, a UK based e-cigarette business with particular strength in traditional grocery and convenience channels. The fair value of the consideration payable was £56 million of which £6 million is contingent on post-acquisition targets. The fair value and book value of acquired net assets was not materially different except for the recognition of brands and similar intangibles of £33 million and related deferred tax liabilities. Provisional goodwill of £21 million arising on this transaction represents a strategic premium to increase the Group's share of the UK e-cigarette market.

As disclosed in the Annual Report for the year ended 31 December 2015, page 34, on 5 February 2016, the acquisition of the shares in Souza Cruz not already owned by the Group was approved, with Souza Cruz becoming a wholly-owned subsidiary at that date.

In June 2015, the Group invested US$4.7 billion (£3.0 billion) in cash in RAI to maintain its 42% shareholding in the enlarged business, following RAI's acquisition of Lorillard Inc.

In the second half of 2015 the Group acquired TDR in Croatia and the Chic Group in Poland. The acquisition accounting, which was provisional at year end (as permitted by IFRS), is now complete for these transactions, with goodwill being reduced by £13 million.

RELATED PARTY DISCLOSURES

There were no material changes in related parties or related party transactions. The Group's related party transactions and relationships for 2015 were disclosed on page 190 of the Annual Report for the year ended 31 December 2015.

FOREIGN CURRENCIES

The principal exchange rates used were as follows:

	Average			Closing		
	30.6.16	30.6.15	31.12.15	**30.6.16**	30.6.15	31.12.15
Australian dollar	**1.954**	1.949	2.036	**1.795**	2.046	2.026
Brazilian real	**5.308**	4.527	5.101	**4.283**	4.885	5.831
Canadian dollar	**1.907**	1.881	1.954	**1.736**	1.963	2.047
Euro	**1.284**	1.366	1.378	**1.203**	1.412	1.357
Indian rupee	**96.300**	95.782	98.070	**90.227**	100.150	97.508
Japanese yen	**159.892**	183.311	185.012	**137.142**	192.443	177.303
Russian rouble	**100.639**	88.018	93.591	**85.391**	87.623	107.646
South African rand	**22.075**	18.162	19.522	**19.577**	19.089	22.839
US dollar	**1.433**	1.524	1.528	**1.337**	1.573	1.474

CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

The Group has contingent liabilities in respect of litigation, taxes and guarantees in various countries, as described in Note 30 to the 2015 Annual Report and Accounts, page 192 to 202. 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.

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, South Africa and Netherlands. A judgment in dispute in Bangladesh, which proceeded to litigation in 2014, was issued in March 2016 when the High Court Division of the Supreme Court found in favour of the Tax Authorities. BAT Bangladesh is currently seeking leave to appeal.

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 judgment. 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.

In respect of the two class actions against the Group's subsidiary Imperial Tobacco Canada (ITCAN) in Quebec, in 2015 the Quebec Court of Appeal upheld the Order for Security, of which ITCAN's share is CAD $758 million. During the period ended 30 June 2016 ITCAN continued to make quarterly deposits (£114 million, CAD $216 million) to the Court escrow account as required by the judgment. ITCAN continues to retain strong legal grounds to appeal the original judgment, with the hearing scheduled for November 2016.

Contingent liabilities and financial commitments cont…

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 judgment.

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 2016 will be included in the Annual Report for the year ended 31 December 2016. There were no material developments in 2015 that would impact on the financial position of the Group.

FRANKED INVESTMENT INCOME GROUP LITIGATION ORDER

The Group is the principal test claimant in an action in the United Kingdom against HM Revenue and Customs (HMRC) in the Franked Investment Income Group Litigation Order (FII GLO). There are 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. Full details are provided in the 2015 Annual Report and Accounts, note 6(b), page 145.

Since the original claim was filed in 2003, the case has been heard in the High Court in the UK, the European Court of Justice and in the Court of Appeal. The detailed technical issues of the quantification mechanics of the claim were heard by the High Court during May and June 2014 and the judgment handed down on 18 December 2014. The High Court determined that in respect of issues concerning the calculation of unlawfully charged corporation tax and advance corporation tax, the law of restitution including the defence on change of position and questions concerning the calculation of overpaid interest, the approach of the Group was broadly preferred. The conclusion reached by the High Court would, if upheld, produce an estimated receivable of £1.2 billion for the Group. Appeals on a majority of the issues have been made to the Court of Appeal, which heard the arguments in June 2016. The judgment is pending and is expected before the end of 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 in respect of the receipt which, 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 of £12 million for the six months to 30 June 2016 (30 June 2015: £nil, 31 December 2015: £8 million) accruing on the balance, which was also treated as an adjusting item.

FAIR VALUE MEASUREMENTS AND VALUATION PROCESSES

The Group held certain financial instruments at fair value at 30 June 2016. The definitions and valuation techniques employed for these as at 30 June 2016 are consistent with those used at 31 December 2015 and disclosed in Note 24 on pages 179 to 184 of the 2015 Annual Report:

- Level 1 financial instruments are traded in an active market and fair value is based on quoted prices at the period end.

- Level 2 financial instruments are not traded in an active market, but the fair values are based on quoted market prices, broker/dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments include OTC derivatives.

- The fair values of level 3 financial instruments have been determined using a valuation technique where at least one input (which could have a significant effect on the instrument's valuation) is not based on observable market data. The Group's level 3 financial instruments primarily consist of an equity investment in an unquoted entity which is valued using the discounted cash flows of estimated future dividends.

While the carrying values of assets and liabilities at fair value have changed since 31 December 2015, the Group does not consider the movements in value to be significant, and the categorisation of these assets and liabilities in accordance with the disclosure requirements of IFRS 7 has not materially changed. The values of level 1 assets and level 3 assets are not material to the Group and were £61 million and £42 million respectively at 30 June 2016 (30 June 2015: £50 million and £33 million respectively and 31 December 2015: £35 million and £37 million respectively).

Level 2 assets and liabilities are shown below.

	30.6.2016	30.6.2015	31.12.2015
	Level 2	Level 2	Level 2
	£m	£m	£m
Assets at fair value			
Derivatives relating to			
– interest rate swaps	**349**	244	269
– cross-currency swaps	**501**	38	53
– forward foreign currency contracts	**345**	261	174
– options	**-**	7	-
Assets at fair value	**1,195**	550	496
Liabilities at fair value			
Derivatives relating to			
– interest rate swaps	**120**	88	93
– cross-currency swaps	**212**	53	49
– forward foreign currency contracts	**728**	160	175
Liabilities at fair value	**1,060**	301	317

The fair value of borrowings is estimated to be £19,586 million (30 June 2015: £16,016 million and 31 December 2015: £20,448 million) and has been determined using quoted market prices or discounted cash flow analysis. The value of other assets/liabilities held at amortised cost are not materially different from their fair values.

NOTES AND ADDITIONAL INFORMATION

British American Tobacco is the world's second largest quoted tobacco group by global market share, with brands sold in more than 200 markets. We have five Global Drive Brands – Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans – and over 200 brands in our portfolio. We hold robust market positions in each of our regions and have leadership positions in more than 55 markets.

Disclaimers

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

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

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

PUBLICATION OF HALF-YEAR REPORT

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

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

ANNUAL REPORT: Statutory Accounts

The information for the year ended 31 December 2015 does not constitute statutory accounts as defined in s434 of the Companies Act 2006. A copy of the statutory accounts for that year 2015 has been delivered to the Registrar of Companies. The auditor's report on the 2015 accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006.

Nicola Snook
Secretary
27 July 2016

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Wednesday 28 September 2016	Payment date of 2016 interim dividend
Wednesday 26 October 2016	Interim Management Statement
Thursday 23 February 2017	Preliminary Statement 2016

CALENDAR FOR THE INTERIM DIVIDEND 2016

2016

Thursday 28 July	Declaration of interim dividend: amount of dividend per ordinary share in both sterling and rand; applicable exchange rate and conversion date – Tuesday 26 July 2016; plus additional applicable information as required in respect of South Africa Dividends Tax*.
Thursday 28 July to Friday 19 August	From the commencement of trading on Thursday 28 July 2016 to Friday 19 August 2016 (inclusive), no removal requests in either direction between the UK main register and the South Africa branch register will be permitted.
Tuesday 16 August	Last Day to Trade or LDT (JSE)
Wednesday 17 August to Friday 19 August	From the commencement of trading on Wednesday 17 August 2016 to Friday 19 August 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.
Wednesday 17 August	Ex-dividend date (JSE)
Thursday 18 August	Ex-dividend date (LSE)
Friday 19 August	Record date (LSE and JSE)
Wednesday 7 September	Last date for receipt of Dividend Reinvestment Plan (DRIP) elections (UK main register only)
Wednesday 28 September	Payment date (sterling and rand)

* Details of the applicable exchange rate and the South Africa Dividends Tax information can be found under the heading 'Dividends' on page 33.

American Depositary Receipts (ADRs)
For holders of ADRs, the record date is Friday 19 August 2016 with a payment date of Monday 3 October 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

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The Company's Representative office in South Africa using the contact details shown below.

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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.

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