



BRITISH AMERICAN
TOBACCO

Transforming Tobacco

Performance Summary 2018



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British American Tobacco p.l.c. (No. 3407696) Performance Summary 2018: Cautionary statement and other information

This Performance Summary is extracted (without material adjustment) from, and should be read as an introduction to and in conjunction with, the Annual Report and Accounts of British American Tobacco p.l.c. (the Company) and the British American Tobacco Group prepared in accordance with UK requirements. It has been drawn up and is presented in accordance with, and reliance upon, applicable English company law and the liabilities of the Directors in connection with the report shall be subject to the limitations and restrictions provided by such law.

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

All such forward-looking statements involve estimates and assumptions that are subject to risks, uncertainties and other factors that could cause actual future financial condition, performance and results to differ materially from the plans, goals, expectations and results expressed in the forward-looking statements and other financial and/or statistical data within this Performance Summary. Among the key factors that could cause actual results to differ materially from those projected in the forward-looking statements are uncertainties related to the following: the impact of competition from illicit trade; the impact of adverse domestic or international legislation and regulation; changes in domestic or international tax laws and rates; adverse litigation and dispute outcomes and the effect of such outcomes on the Group's financial condition; changes or differences in domestic or international economic or political conditions; adverse decisions by domestic or international regulatory bodies; the impact of market size reduction and consumer down-trading; translational and transactional foreign exchange rate exposure; the impact of serious injury, illness or death in the workplace; the ability to maintain credit ratings and to fund the business under the current capital structure; the inability to develop, commercialise and roll-out Potentially Reduced-Risk Products; and changes in the market position, businesses, financial condition, results of operations or prospects of the Group. Further details on the principal risks that may affect the Group can be found in the 'Principal Group risks' section of the Strategic Report of the Annual Report and Accounts. A summary of all the risk factors (including the principal risks) which are monitored by the Board through the Group's risk register is set out in the Additional disclosures section under the heading 'Group Risk Factors' in the Additional Disclosures section of the Annual report and Accounts.

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

This Performance Summary is provided for information only and is not intended to be a substitute for reading the Annual Report and Accounts. In particular, this Performance Summary does not comprise the Company's Strategic Report or any supplementary materials and it does not contain sufficient information to allow for as full an understanding of the results of the Group and the state of affairs of the Group, and the principal risks facing the Group, as would be provided by the Annual Report and Accounts.

Shareholders may view a copy of the Annual Report and Accounts on www.bat.com or obtain a hard copy free of charge. Specific local mailing and/or notification requirements will apply to shareholders on the South Africa branch register.

If you have sold or transferred all your shares in British American Tobacco p.l.c., you should send this Performance Summary to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This Performance Summary provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards (IFRS). We believe these APMs provide readers with important additional information on our business. A comprehensive list of the APMs that we use, an explanation of how they are calculated, why we use them and a reconciliation to the most directly comparable IFRS measure where relevant is set out under the heading 'Non-GAAP measures' in the Additional Disclosures section of the Annual Report and Accounts.

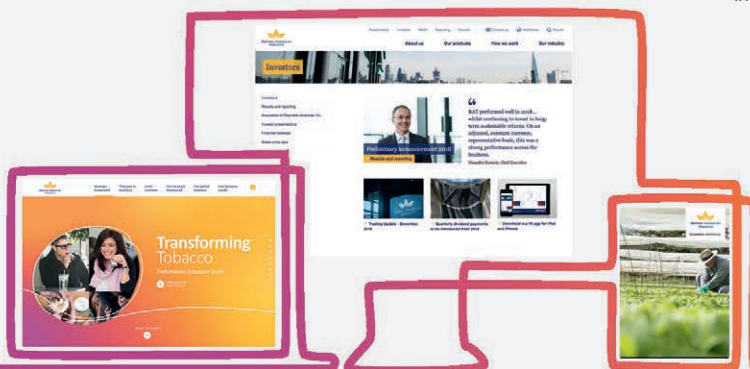
BAT has shares listed on the London Stock Exchange (BATS) and the Johannesburg Stock Exchange (BTJ), and, as American Depositary Shares (ADSs), on the New York Stock Exchange (BTI).

References in this Performance Summary to 'British American Tobacco', 'BAT', 'Group', 'we', 'us' and 'our' when denoting opinion refer to British American Tobacco p.l.c. and when denoting tobacco business activity refer to British American Tobacco Group operating companies, collectively or individually as the case may be.

The material in this Performance Summary is provided for the purpose of giving information about the Company to investors only and is not intended for general consumers. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this material is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The material in this Performance Summary is not provided for product advertising, promotional or marketing purposes. This material does not constitute and should not be construed as constituting an offer to sell, or a solicitation of an offer to buy, any of our products. Our products are sold only in compliance with the laws of the particular jurisdictions in which they are sold.

References in this Performance Summary to information on websites, including the web address of BAT, have been included as inactive textual references only. The websites and the information contained therein or connected thereto are not intended to be incorporated into or to form part of this Performance Summary.

 More available online at bat.com/investors



British American Tobacco (BAT) is one of the world's leading consumer goods companies, with nicotine and tobacco brands sold around the globe. We employ over 55,000 people, partner with over 90,000 farmers and have factories in 48 countries, with offices in even more.

Transforming Tobacco



At BAT, we have been satisfying adult consumers, delivering shareholder value and creating valued employment for over a century.

Today we find ourselves in one of the most dynamic periods of change our industry has ever encountered.

Rapid product innovation, along with advances in societal attitudes and public health awareness, has given us the opportunity to make a substantial leap forward in our long-held ambition to positively impact the lives of millions of our consumers by providing them with lower-risk tobacco and nicotine products.

We call this ambition 'transforming tobacco' and we are fully committed to leading the transformation of our industry and our company.



In 2012, we articulated a clear vision that places adult consumers at the centre of our strategy. Our Transforming Tobacco ambition builds on this vision as we grow our business based on offering our consumers a broad range of outstanding products, informed consumer choice, and a drive towards a reduced-risk portfolio. More choice, more innovation, less risk.

Empowering consumers through choice

It is widely accepted that most of the harm associated with cigarettes is caused by inhaling the smoke produced by the combustion of tobacco, and that cigarette smoking is the most dangerous way of consuming tobacco.

While smokers have historically had very few alternatives to combustible cigarettes, innovation is now providing adult consumers with a greater choice of tobacco and nicotine products that are potentially less risky than cigarettes.

BAT is at the forefront of the development and sale of a whole range of potentially reduced-risk products that provide much of the enjoyment of smoking without burning tobacco.

Our growing portfolio of potentially reduced-risk products (which we call PRRPs) includes vapour, tobacco heating products (THPs), modern oral products, as well as traditional oral products such as Swedish-style snus and American moist snuff.

Our acquisition of Reynolds American has transformed us into one of the world's leading vapour companies and has also allowed us to significantly increase the size of our oral tobacco and nicotine products range.

Never before have so many of our consumers around the world had access to so many alternatives to combustible cigarettes. We continue to develop new and ever more innovative products to add to this range of potentially less risky choices.



In addition to our commitment to developing and offering a range of high-quality alternative products, we are also committed to working with governments and other stakeholders around the world to develop supportive regulatory regimes.

While we cannot be certain how many smokers will switch to our alternative products, we have already seen several countries dismantle barriers to these new products, which has given millions of additional adult consumers greater choice.

...supported by pro-active **external** engagement

We recognise that our ambition to 'transform tobacco' relies not only on our development and commercialisation of new products, but on the support of regulators and society as well.

Greater consumer choice is at the heart of our strategy, but its effects require amplification from sensible regulations that allow adult consumers access to alternative choices, as well as from public health bodies and the media to drive informed consumer decision making.

By working with key stakeholders around the world, we strive to maximise the potential for reduced-risk products: safer choices for our consumers, benefits for public health, and a more sustainable and profitable business for our shareholders.



Consumer preferences are diverse and constantly evolving. Our increasingly broad range of potentially reduced-risk products allows us to meet these varied preferences and create a better tomorrow for our consumers.



An unrivalled range of **innovative** products



Today, we have industry-leading products in vapour, in tobacco heating products, in modern oral products, as well as in the traditional oral category.

Notwithstanding the successes of our new categories, this is just the beginning, and innovation and technology will increasingly be at the heart of our business. Our research and development facility, comprising hundreds of scientists, is focused on the continued development of new and innovative potentially reduced-risk products and categories.

In 2018, we filed 130 patents and expect that number to significantly increase in the coming years.

Of course, expertise in this area is not solely within BAT and, consequently, we have a number of collaborations, partnerships and investments with third parties with a broad range of specialisms to help us drive and develop our pipeline of future products.





BAT's ongoing transformation is supported by its strong global combustibles business, and every day more than 150 million adult consumers choose BAT brands.

The revenues from this business are vital to provide the investment for our PRRP business, while our global supply chain and worldwide distribution network of over 11 million retail outlets are powerful assets that drive our ambition to offer millions of adult consumers new and potentially less risky choices.

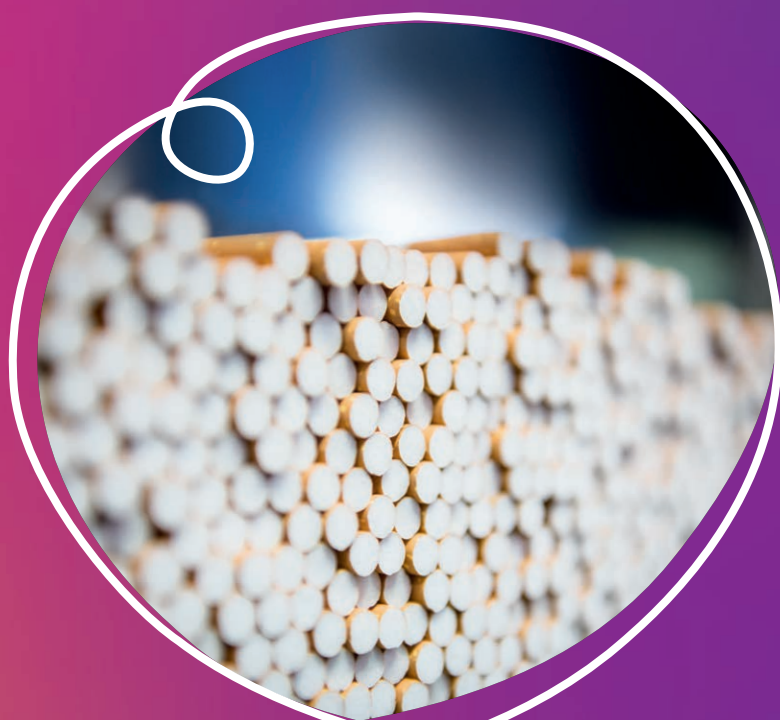
...underpinned by a **strong** global business



As we develop new and potentially reduced-risk product categories, our conventional cigarette business remains strong and continues to grow. This enables us to invest in the development of better and more innovative products, while continuing to deliver strong results and dividends to our shareholders. As a global business operating in over 200 markets, we are using our significant presence and distribution networks to offer our full range of potentially reduced-risk product choices to as many adult consumers as possible.

We are often asked why we don't simply stop selling cigarettes. In short, immediately stopping our sales of cigarettes would be neither commercially sensible nor practical: the ongoing consumer demand for these products would either transfer straight to our competitors or, more worryingly, the black market.

We are proud of all our brands and believe that all our products have a role to play in our business success and our ambition to transform tobacco.



Our potentially reduced-risk product business has seen outstanding growth. Our tobacco heating, vapour, and modern oral products are now available in 29 markets and used by six million adult consumers around the world. However, this is just the beginning, and with a growing consumer base of over one billion smokers and nicotine users in the world, the opportunities presented by these new categories are huge.

Another step on an exciting journey



While we cannot be certain whether all smokers will switch to potentially reduced-risk products, we are committed to improving the lives of smokers by making a range of high-quality, innovative products as widely available as we practically can.

We believe that by doing this, and working with regulators to establish supportive regulatory regimes, many millions of smokers will increasingly make the choice to switch.

If we can all work successfully together, we can drive a scenario in which our consumers will have a range of potentially safer choices, our shareholders will own an even more sustainable and profitable business, and society could benefit from real progress in tobacco harm reduction.

Chairman's introduction



“I am very pleased to report another strong set of results with market share, revenue, and profit from operations all growing”

Richard Burrows
Chairman

Another strong set of results

Welcome to our Performance Summary. Yet again, I am very pleased to report another strong set of results with market share, revenue and profit from operations all growing.

Our 2018 results demonstrate not only that our combustible business is in good shape, but that our investment in a multi-category approach to our potentially reduced risk-product business is starting to pay off with encouraging results across all categories.

While the business is continuing to perform well, it is impossible for us to ignore investor sentiment, which has been negatively impacted by the regulatory threats in the US and competitor dynamics in the potentially reduced-risk product categories. However, we are confident that our strategy of continuing to deliver shareholder returns today while investing in the future remains the right one.

Dividends

The Board has declared a dividend of 203.0p per ordinary share, payable in four equal instalments of 50.75p per ordinary share, to shareholders registered on the UK main register or the South Africa branch register and to American Depository Shares (ADS) holders, each on the applicable record dates.

The dividends receivable by ADS holders in US dollars will be calculated based on the exchange rate on the applicable payment dates.

A sustainable and well-governed business

As we work to transform our business, we remain equally focused on our Sustainability Agenda, which forms an integral part of our group strategy.

Given the important role that sustainability plays in securing the future of our business, we are constantly seeking new ways to further improve our practices. For example, in 2018 we updated our Supplier Code of Conduct with new human rights provisions for responsible sourcing of conflict minerals, as well as wages, benefits and working hours.

Additionally, good governance has long been a key priority for the Group, and we continue to strengthen our internal compliance programmes to ensure transparent and responsible corporate behaviour. For instance, in 2018 we enhanced our anti-bribery and corruption procedures with initiatives including a new third-party assessment procedure and a 'Speak Up' hotline, which empowers employees and business units to better identify and mitigate risks in key compliance areas.

Our efforts in these areas continue to be recognised externally, and I am proud to report that we were once again the only company in our industry to have been included in the Dow Jones Sustainability Indices' prestigious World Index in 2018, while our Modern Slavery Act Statement has been ranked 3rd in the Global Governance FTSE 100 League Table.

Board composition and outlook

Our Chief Executive, Nicandro Durante, retires at the beginning of April 2019. During his eight years in the role he has grown the business substantially, delivering consistent and strong growth in both earnings and dividends. Importantly, he was the architect of the current strategy to transform the business and, with the successful establishment of BAT's potentially reduced-risk products business and the acquisition of Reynolds American Inc., has created a stronger, truly global tobacco and nicotine company.

On behalf of the Board, I would like to thank him for his tremendous work, which has left BAT well positioned for future growth and success.

I would like to welcome Jack Bowles, our current CEO Designate, to the role of Chief Executive effective 1 April 2019. The Board was delighted to have been able to appoint such an experienced and dynamic successor from within BAT. In his most recent roles – as Director of the Asia Pacific Region and as Chief Operating Officer – Jack demonstrated excellent strategic leadership, delivering strong business growth including in vapour and tobacco heating products, as well as building very strong management teams. His track record of innovating and his experience across so many geographies and areas of the business position him extremely well to build on Nicandro's achievements and write the next successful chapter in BAT's history.

Ben Stevens, the Group's Finance Director since 2008, will also retire from the Board in August of this year. Throughout his 30-year career at BAT, Ben contributed an enormous amount to the Company, and as an outstanding Finance Director he has been instrumental in ensuring the Company's consistent earnings growth. On behalf of the Board, I would like to thank Ben for his leadership and invaluable contributions.

I am very pleased that Tadeu Marroco will be bringing his 26 years of experience within the Group to the Board when he succeeds Ben this summer. Given his broad experience as a Director of Western Europe, Director of Business Development, and Director of Group Transformation, the Board has full confidence that he will play a key role in continuing to deliver our ambition to transform our Company and our industry.

Additionally, Lionel Nowell, III, retired from the Board of British American Tobacco p.l.c. with effect from 12 December 2018. Lionel had served as a Non-Executive Director since July 2017 and had been a member of the Audit and Nominations Committees since October 2017.

Richard Burrows
Chairman

Our year in numbers

Group cigarette (and tobacco heating products – THP) volume

708bn

+3.3% (-3.5% representative⁴)

2017: +3.2% (-2.6% organic³)

2016: +0.2% (-0.8% organic³)

Group market share of Key Markets

+40 bps

KPI

2017: +40 bps

2016: +50 bps

Strategic Cigarette and THP volume

451bn

+17.9% (+5.8% representative⁴)

2018	451bn
2017	382bn
2016	324bn

2017: +17.9% (+7.6% organic³)

2016: +7.5%

Oral (snus) (no. pouches)

3.9bn

+93% (+10.5% representative⁴)

2018	3.9bn
2017	2.0bn
2016	0.5bn

2017: +317% (+32% organic)

2016: +9%

Vapour (units)

189m

+100% (+35% representative⁴)

2018	189m
2017	95m
2016	43m

2017: +120%

2016: +832%

Revenue (£m)

£24,492m

+25.2%

2018	£24,492m	+25%
2017	£19,564m	+39%
2016	£14,130m	+13%

Definition: Revenue recognised, net of duty, excise and other taxes.

In 2018, revenue includes £17,257 million of revenue from the Strategic Portfolio, an increase of 49% on 2017 (on a reported and representative basis).

Change in adjusted² revenue at constant rates¹ (%)

+33.4%

KPI
Non-GAAP

2018	+33%
2018 (rep ⁴)	+4%
2017	+32%
2017 (org ³)	+3%
2016	+6%

Definition: Change in revenue before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

Change in adjusted² revenue from the Strategic Portfolio at constant rates¹ (%)

+56.1%

KPI
Non-GAAP

2018	+56%
2018 (rep ⁴)	+8%

Definition: Change in revenue from the strategic portfolio before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

This measure was introduced in 2018, with no comparators provided.

Changes in 2018

In 2018, the Group introduced a new measure called 'adjusted revenue growth from the Strategic Portfolio' as part of the continual assessment of the Group's short- and long-term delivery of the strategic vision. This measure replaced the GDB and Key Strategic Brands volume growth metric as a key performance indicator in connection with the Group's compensation plans. This Strategic Portfolio reflects the focus of the Group's investment activity and includes the 'Strategic Combustible Brands' being Kent, Dunhill, Lucky Strike, Pall Mall, Rothmans, Camel (US), Newport (US) and Natural American Spirit (US) and our potentially reduced-risk products portfolio, which comprises our THP, vapour, modern oral and traditional oral businesses. In line with the above, and to reflect the development of the categories, the Group is also providing specific volume metrics for vapour and oral.

KPI Denotes KPI measure

Non-GAAP Denotes non-GAAP financial measure, see Non-GAAP measures in the Annual Report and Accounts

Profit from operations (£m)

£9,313m

+45.2%

2018	£9,313m	+45%
2017	£6,412m	+38%
2016	£4,655m	+2%

Definition: Profit for the year before the impact of net finance costs/income, share of post-tax results of associates and joint ventures and taxation on ordinary activities.

Change in adjusted² profit from operations at constant rates¹ (%)

+37.8%

KPI
Non-GAAP

2018	+38%
2018 (rep ⁴)	+4%
2017	+39%
2017 (org ³)	+4%
2016	+4%

Definition: Change in profit from operations before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

Notes: To supplement our results of operations presented in accordance with IFRS, the information presented also includes several non-GAAP measures used by management to monitor the Group's performance. See the section Non-GAAP measures in the Annual Report and Accounts for information on these non-GAAP measures, including their definitions and reconciliations from the most directly comparable IFRS measure, where applicable. Certain of our measures are presented based on constant rates of exchange, on an adjusted basis, on a representative basis and on an organic basis.

- Where measures are presented 'at constant rates', the measures are calculated based on a re-translation, at the prior year's exchange rates, of the current year results of the Group and, where applicable, its segments. See the Annual Report and Accounts for the major foreign exchange rates used for Group reporting.
- Where measures are presented as 'adjusted', they are presented before the impact of adjusting items. Adjusting items represent certain items of income and expense which the Group considers distinctive based on their size, nature or incidence.
- Where measures are presented as 'organic' or 'org', they are presented before the impact of the contribution of brands and businesses acquired during the comparator period, including Reynolds American, Bulgartabac, Winstington and Fabrika Duhana Sarajevo in 2017. There were no material acquisitions or disposals in 2018.
- Where measures are presented as 'representative', 'rep' or 'on a representative basis', they are presented inclusive of the acquired businesses in the 2017 comparator period as though those businesses had been included in the consolidated results for the whole of that comparator period and including certain additional adjusting items related to the acquired companies.

Operating margin (%)

38.0%

2018	38.0%
2017	32.8%
2016	32.9%

Definition: Profit from operations as a percentage of revenue.

Diluted earnings per share (EPS) (p)

263.2p
-86%

2018	263.2p	-86%
2017	1,827.6p	+633%
2016	249.2p	+8%

Definition: Profit attributable to owners of BAT p.l.c. over weighted average number of shares outstanding, including the effects of all dilutive potential ordinary shares.

Net cash generated from operating activities (£m)

£10,295m
+93%

2018	£10,295m	+93%
2017	£5,347m	+16%
2016	£4,610m	-2%

Definition: Movement in net cash and cash equivalents before the impact of net cash used in financing activities, net cash used in investing activities and differences on exchange.

Adjusted² operating margin (%)

42.6%

Non-GAAP

2018	42.6%
2017	41.1%
2016	38.8%

Definition: Adjusted profit from operations as a percentage of adjusted revenue.

Change in adjusted² diluted EPS (%)

+5.2%

KPI
Non-GAAP

2018	+5%
2017	+14%
2016	+19%

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

Change in adjusted² cash generated from operations at constant rates¹ (%)

+158%

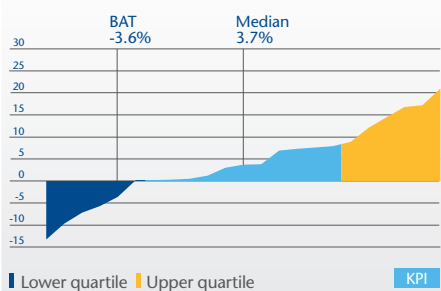
KPI
Non-GAAP

2018	+158%
2017	0%
2016	+21%

Definition: Change in adjusted cash generated from operations, before the impact of fluctuations in foreign exchange rates.

Total shareholder return (TSR) of the FMCG group – 1 January 2016 to 31 December 2018 (%)

The FMCG group comparison is based on three months' average values



Change in adjusted² diluted EPS at constant rates¹ (%)

+11.8%

KPI
Non-GAAP

2018	+12%
2017	+9%
2016	+10%

Definition: Change in diluted earnings per share before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

Cash conversion (%)

111%

2018	111%
2017	83%
2016	99%

Definition: Net cash generated from operating activities as a percentage of profit from operations.

Total dividends per share (p)

203.0p
+4.0%

2018	203.0p	+4%
2017	195.2p	+15%
2016	169.4p	+10%

Definition: Dividend per share in respect of the financial year.
Target: To increase dividend in sterling terms, based upon the Group's policy to pay dividends of 65% of long-term sustainable earnings.

Operating cash flow conversion ratio (%)

113%

KPI
Non-GAAP

2018	113%
2017	79%
2016	93%

Definition: Operating cash flow, as a percentage of adjusted profit from operations.

Chief Executive's review

Nicandro Durante Chief Executive

A winning strategy

After 37 years at BAT, eight of them as CEO, I will retire in April 2019. I have seen BAT evolve and grow throughout my career, and am confident that this will continue during the dynamic period of change the industry is going through today.

When I became CEO in 2011, we articulated a strategy to put the consumer at the heart of our business, and a vision to be the best at satisfying consumer moments in tobacco and beyond. This strategy has enabled us to deliver consistent outstanding year-on-year growth and shareholder returns, while at the same time establishing a successful and diverse potentially reduced-risk products (PRRP) business designed to meet the evolving and varied preferences of today's consumers.

Thanks to this strategy, the Group continues to perform well. Our 2018 reported revenue and profit from operations are up 25% and 45% respectively, and while this is of course due primarily to our first full year's inclusion of results from the US, we have nonetheless again exceeded our target of high single figure adjusted diluted constant currency EPS growth with an increase of 11.8%. This was driven not only by the strong performance of our combustible business, but also by the near-doubling of THP and vapour revenue.

Notwithstanding these results, it is clear that the market has concerns in relation to the impact of the changes the industry is going through and in respect of threatened regulatory developments. I am, however, confident that the business is in extremely good shape and that these changes, in reality, present significant opportunities for future growth. With our core combustibles business outperforming the industry, and with a strong and broad multi-category portfolio of PRRPs capable of meeting the evolving preferences of consumers around the world, I believe we are in a good position to deliver long-term sustainable growth.

A strong portfolio of both combustibles and PRRPs

Our results in 2018 reflect the successful performance of all elements of our portfolio, and highlight the importance of expanding consumer choice across all of our categories.

In combustibles, Group market share was up 40 basis points, driven by another strong performance from the Strategic Cigarette and THP brands, which grew volume by 5.8%.

In THP, our revenue increased to £565 million or £576 million, at constant rates. Our glo brand has achieved 4.7% market share (20% category share) in Japan, and continues to grow market share in South Korea, Romania and Italy.

The Group's vapour portfolio performed strongly with significant growth in both volume and revenue across our 15 vapour markets. Momentum increased, with growth weighted towards the second half of the year driven by new market and product launches. Total vapour volume was up by 35% on a representative basis with good performances in the world's three largest vapour markets – the US, the UK and France.

In oral tobacco we continue to grow value with strong performances from modern oral products such as Epok in Sweden, Norway and Switzerland, as well as traditional products such as Grizzly in the US, where revenues were £931 million, an increase of 3.1% on an adjusted representative basis.

Reynolds American Inc. (RAI)

RAI is delivering strong financial results for the Group. In 2018, revenue was up 128% (as a result of the full year effect). This was an increase of 1.5% on a representative constant currency basis, and was driven by robust price mix and a 25 basis point growth in value share, despite a decline in total volume. With adjusted operating margin up 180 bps, adjusted profit from operations was up 5.8% on a representative, constant rate basis. Annualised cost savings resulting from the acquisition are now running at over US\$300 million per year, and we are on track to deliver at least US\$400 million per year in cost synergies by the end of 2020.

While FDA regulatory proposals have driven some uncertainty in the US operating environment, our long track record of success in the face of regulatory change and our strong portfolio of brands give us confidence that we will be able to manage these issues. We are additionally reassured by the fact that, in order to withstand judicial review, any regulation of menthol in cigarettes must be developed through a comprehensive rule-making process, be based on a thorough scientific review and consider all unintended consequences.

Handing over

I am extremely pleased that the Board has chosen Jack Bowles as my successor. I have no doubt that his broad-ranging experience and expertise, combined with his energy, passion and drive for success, will help ensure the future growth of the Company.

I am tremendously proud of what we have achieved in the last eight years, and would like to thank all of my colleagues across the Group for their part in this.

Jack Bowles

Chief Executive Designate

An exciting time for BAT

It is an exciting time for me to take over as CEO. Our industry is evolving and with this comes great opportunity.

With our depth of talent, our iconic brands and our range and pipeline of PRRPs, I am confident that we will take full advantage of these opportunities as we accelerate the transformation of BAT into a stronger multi-category tobacco and nicotine products company.

Strong foundations

It gives me great comfort to know that the fundamentals of our business are in such good shape. Our combustible business continues to deliver strong year-on-year growth. Our acquisition of RAI has made us a truly international tobacco and nicotine products business, and our PRRP business is firmly established and growing.

Our current strategy, with its aim of being the world's best at satisfying consumer moments in tobacco and beyond, remains as relevant today as it was when it was first rolled out in 2012. The consumer is, and will continue to be, at the heart of everything we do. We know that our consumers' tastes and preferences are evolving and fragmenting, and it is to satisfy these varied preferences that we have developed a broad range of different products with the potential to provide lower risks than combustible cigarettes.

Accelerating the delivery of our strategy

With confidence in our multi-category approach, we are now focused on our need to accelerate the delivery of our transforming tobacco ambition. Notwithstanding our great success to date in establishing our PRRP business, we acknowledge that we are at the start of a long journey. As the number of our consumers grows, our focus will be on accelerating our strategy to ensure that our products are able to satisfy the preferences of those many millions of adult smokers who are still looking for a satisfying but less risky alternative to their current products.

In order to further enhance the focus on our consumers we have created two new Management Board roles. Our new Director of New Categories will have end-to-end accountability for driving growth, innovation, world-class brand building and consumer insights for our PRRPs, while our new Director of Digital and Information is tasked with responsibility for enhancing our digital consumer capabilities.

Vision for success

I am excited about the challenges and opportunities that lie ahead for us. We have the right strategy, the right foundations, the right vision, and, most importantly, employees with the right skills and attitude to enable us to keep growing the Company for many years to come.



Our strategic framework for transforming tobacco

Our strategy remains as relevant today to drive our transforming tobacco ambition as it was when it was first rolled out in 2012. It enables us to continue delivering value growth while driving the investment required to deliver our transformational agenda.

Our vision remains clear: while combustible tobacco products will remain at the core of our business for some time to come, we understand that long-term sustainability will be delivered by our transforming tobacco ambition.



Our vision

World's best at satisfying consumer moments in tobacco and beyond.

Our consumers are at the core of everything we do and our success depends on addressing their preferences, concerns and behaviours.

We know that consumer preferences are fragmenting and evolving at an unprecedented pace, and consequently, we are focusing on providing a range of tobacco and nicotine products across the risk spectrum. In addition, we understand that to succeed in this space we need to continue enhancing our understanding of our consumers' preferences in order to drive development of new and innovative products.

Our mission

Delivering our commitments to society, while championing informed consumer choice.

We have long known that, as a major international business, we have a responsibility to address societal issues with our tobacco products, and that, as our business continues to grow, so does our influence and the responsibility that comes with it.

We are also clear that we have a duty to our shareholders to ensure we continue to deliver today and invest for a sustainable future and to our consumers to provide, in addition to our combustible products, a range of potentially reduced-risk products (PRRPs).

Our transforming tobacco ambition, with its core objective of providing adult consumers with more choice, more innovation and less risk will allow us to: satisfy these consumers; address societal concerns through the growth of multiple categories of potentially reduced-risk tobacco and nicotine products; and provide a sustainable, profitable future for our shareholders.

Strategic focus areas

Our four key focus areas remain fundamental to our strategy as we focus on our transforming tobacco ambition.

Growth

Constantly developing our portfolio of potentially reduced-risk products and new technologies while continuing to drive revenue growth from our traditional combustible products.

Productivity

Effectively deploying resources between product categories and managing our cost base to release funds for investment.

Winning organisation

Ensuring we have great people with the right skill sets in the right teams to drive the transformation of our business.

Sustainability

Ensuring a sustainable business that meets the expectations of all our various stakeholders.

 See the Annual Report and Accounts for further details at www.bat.com/reporting

Guiding Principles

Our Guiding Principles provide clarity about what we stand for. They form the core of our culture and guide how we deliver our strategy.

Enterprising spirit

We value enterprise from all of our employees across the world, giving us a great breadth of ideas and viewpoints to enhance the way we do business. We have the confidence to pursue growth and new opportunities while accepting the considered entrepreneurial risk that comes with it. We are bold and strive to overcome challenges. This is the cornerstone of our success.

Freedom through responsibility

We give our people the freedom to operate in their local environment, providing them with the benefits of our scale but also the ability to succeed locally. We always strive to do the right thing, and this freedom enables us to act in the best interests of our consumers while exercising our responsibility to society and other stakeholders.

Open minded

Our corporate culture is a great strength of the business and one of the reasons we have been, and will continue to be, successful. We are forward-looking and anticipate consumer preferences, winning with innovative, high-quality products. We listen to, and genuinely consider, other perspectives and changing social expectations. We are open to new ways of doing things.

Strength from diversity

Our management population comprises people from over 140 nations, giving us unique insights into local markets and enhancing our ability to compete across the world. We respect and celebrate each other's differences and enjoy working together. We harness diversity – of our people, cultures, viewpoints, brands, markets and ideas – to strengthen our business. We value what makes each of us unique.

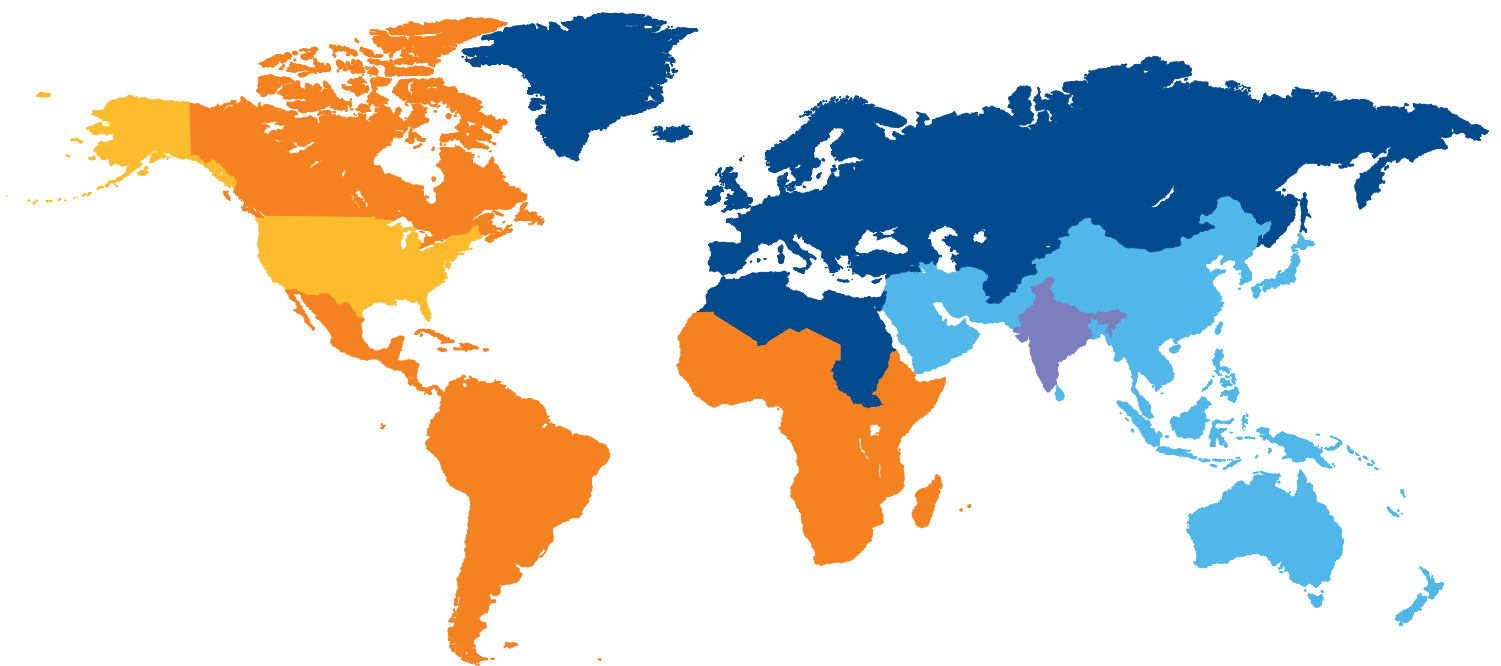
Our global business

British American Tobacco is a leading, multi-category consumer goods company that provides tobacco and nicotine products to millions of consumers around the world.

Our portfolio reflects our commitment to meeting the preferences of today's adult smokers while transforming tobacco with a choice of potentially reduced-risk products.

These include vapour, tobacco heating products, modern oral products including tobacco-free nicotine pouches, as well as traditional oral products such as snus and moist snuff.

Our products are sold in over 200 markets with a balanced presence in high-growth emerging markets and highly profitable developed markets. Our business is divided into four regions across six continents.



**United States
of America**

**Americas and
Sub-Saharan
Africa**

**Europe and
North Africa**

**Asia-Pacific
and Middle East**

Our Strategic Portfolio comprises our key brands in both the combustible and PRRP categories. This drives focus and investment on the brands and categories that will underpin the Group’s future growth.

We also have a portfolio of international and local brands which, while not the focus of our investment, contribute valuable returns across several key markets.

Strategic Portfolio

Combustible tobacco products



Potentially reduced-risk products



Tobacco heating products



Modern oral products



Traditional oral products



International and local cigarette brands



* Our vapour product Vuse, and oral products Grizzly, Camel Snus and Kodiak, which are only sold in the US, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.

Finance Director's overview

“The Group again delivered growth across all key performance indicators”

Ben Stevens
Finance Director



Strong performance across all measures

Despite external challenges, translational foreign exchange headwinds of approximately 6% on revenue and profit from operations, and further investment in PRRPs, the Group again delivered growth across all key performance indicators in 2018.

Since the Group's 2018 results are, on a reported basis, influenced by the full year inclusion of RAI (compared against five months in 2017), the results are also provided with a comparison on a representative basis, as though the Group had owned RAI and other acquisitions for the whole of the 2017 comparator period. This will provide readers with an understanding of the Group's performance inclusive of RAI and other acquisitions in both 2017 and 2018.

Increase revenue and profit from operations

Revenue grew by 25.2% in 2018 to £24,492 million (2017 was up 38.5% at £19,564 million) largely due to the acquisition of RAI, concluded in July 2017. Adjusting for the impact of acquisitions, excise on bought-in goods and the impact of currency, adjusted revenue grew by 3.5% in 2018 on a representative constant rate basis, while 2017 had seen an increase of 2.9% (on an organic basis). This 2018 growth was driven by price mix (6% on combustibles) and the growth of vapour, THPs and modern oral, which more than offset a decline in combustible volume.

Profit from operations was up 45.2% (2017: up 38%), as the inclusion of 12 months of results from RAI and growth in revenue more than offset the ongoing investments in THP and vapour, the amortisation of acquired brands and the costs incurred as part of the Group's restructuring programme.

Adjusted profit from operations grew by 4.0% on a constant currency representative basis (2017: up 3.7% organic, at constant rates).

A full reconciliation of our results under IFRS to adjusted revenue and adjusted profit from operations is provided in the Annual Report and Accounts.

Against a backdrop of challenging conditions, notably the foreign exchange headwind, all regions performed well, growing adjusted profit from operations at constant rates of exchange on a representative basis, while investing in THP and vapour. This continues to demonstrate the ability of the Group, due to its geographic diversity, to offset the challenging environment in a number of markets.

Our operating margin increased by over 500 bps. This was driven by the positive mix effect from the consolidation of a full year's results from RAI, while certain purchase price accounting adjustments that affected 2017 did not repeat. On an adjusted, representative basis, operating margin increased by 40 bps, as the Group continued to drive margin improvements while investing in the roll-out of PRRPs.

EPS movements reflect strong fundamentals

Net finance costs increased by £287 million to £1,381 million driven by the full year interest charge incurred in the year on borrowings of £47,509 million. Our banking facilities require a gross interest cover of at least 4.5 times. In 2018, our gross interest cover was 7.2 times (2017: 7.8 times, 2016: 12.2 times).

On a reported basis, basic EPS was 86% lower than 2017 at 264.0p, as the prior period (up 633% against 2016 at 1,833.9p) was materially affected by a deemed gain (£23.3 billion) on the disposal of the Group's holding in RAI, required as part of the acquisition accounting. In 2017, the Group also recognised a deferred tax credit (£9.6 billion) related to the tax reforms in the US. Excluding these and other adjusting items, including those related to the acquisition of RAI, and the effect of foreign exchange on the Group's results, adjusted diluted earnings per share, at constant rates, increased by 11.8% to 315.5p, with 2017 ahead of 2016 by 9.1%.

Cash flow generation drives deleveraging

In 2018, net cash generated from operating activities grew by 93% to £10,295 million. This was principally due to the inclusion of a full year's cash flow from RAI, the timing of payments related to the Master Settlement Agreement (MSA) in the US, the cessation in 2017 of payments in relation to the Quebec Class Action and the ongoing cash generation in the rest of the Group.

Adjusted cash generated from operations was £8,071 million, which represents an increase of 146% over 2017, or 158% on a constant rate basis. Excluding the timing of the early payment of the 2017 MSA liability, paid in 2017 and tax deductible at 2017 tax rates, adjusted cash generated from operations would have increased by over 43%.

Based upon net cash generated from operating activities, the Group's cash conversion ratio increased from 83% in 2017 to 111% in 2018. Excluding the MSA timing impact, operating cash flow conversion ratio increased from 97% to 100%.

Adjusted net debt to adjusted EBITDA provides a measure to assess the Group's ability to meet its borrowing obligations. The Group continues to focus on a balanced approach of deleveraging, while investing for the future and providing a return via dividends to shareholders. In 2018, the adjusted net debt to adjusted EBITDA ratio improved from 5.3 times to 4.0 times. Excluding the effect of currency, this would have been an improvement to approximately 3.6 times.

Delivering today and investing in the future

The Group continues to deliver against the financial imperatives, which supports the growth in dividends while deleveraging and investing in PRRPs for tomorrow's success.

Shareholding administration and services

United Kingdom Registrar

Computershare Investor Services PLC
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ
tel: 0800 408 0094; +44 370 889 3159
web-based enquiries: www.investorcentre.co.uk/contactus

www.computershare.com/uk/investor/bri

Access the web-based enquiry service of Computershare Investor Services PLC for holders of shares on the UK share register; view details of your BAT shareholding and recent dividend payments and register for shareholder electronic communications to receive notification of BAT shareholder mailings by email.

www.computershare.com/dealing/uk

Go online or telephone 0370 703 0084 (UK) to buy or sell British American Tobacco shares traded on the London Stock Exchange. Before you can trade, you will need to register for this service. The internet share dealing service is only available to shareholders resident in countries in the European Economic Area.

South Africa Registrar

Computershare Investor Services Proprietary Limited
PO Box 61051, Marshalltown 2107, South Africa
tel: 0861 100 634; +27 11 870 8216
email enquiries: web.queries@computershare.co.za

American Depositary Shares

Enquiries regarding ADS holder accounts and payment of dividends should be directed to:

Citibank Shareholder Services
PO Box 43077, Providence, Rhode Island 02940-3077, USA
tel: +1 888 985 2055 (toll-free) or +1 781 575 4555
email enquiries: citibank@shareholders-online.com
website: www.citi.com/dr

Documents on Display and Publications

The Annual Report and Accounts is available online at bat.com/annualreport. Copies of current and past Annual Reports are available on request. Highlights from these publications can be produced in alternative formats such as Braille, audio tape and large print. Documents referred to in the Annual Report and Form 20-F 2018 do not form part of the Annual Report unless specifically incorporated by reference.

Contact:

British American Tobacco Publications
Unit 80, London Industrial Park, Roding Road, London E6 6LS
tel: +44 20 7511 7797; facsimile: +44 20 7540 4326
email: bat@team365.co.uk

Holders of shares held on the South Africa register can contact the Company's Representative office in South Africa using the contact details shown overleaf.

ADS holders can contact Citibank Shareholder Services in the United States using the contact details shown above.

The Company is subject to the information requirements of the US Securities Exchange Act of 1934 applicable to foreign private issuers. In accordance with these requirements, the company files its Annual Report on Form 20-F and other documents with the SEC. You also may call the SEC at +1 800-SEC-0330. In addition, BAT's SEC filings are available to the public, together with the public filings of other issuers, at the SEC's website, www.sec.gov.

Our website – www.bat.com

Access comprehensive information about British American Tobacco and download shareholder publications at the corporate website; visit the Investors section for valuation and charting tools, dividend and share price data and subscribe to the email alert services for key financial events in the British American Tobacco financial calendar; and download the British American Tobacco Investor Relations app to access all the latest financial information on your iPad, iPhone or Android device.

Dividend Reinvestment Plan

Available to the majority of shareholders on the UK register, this is a straightforward and economic way of utilising your dividends to build up your shareholding in British American Tobacco. Contact Computershare Investor Services PLC in the UK for details.

Individual Savings Accounts (ISAs)

A British American Tobacco sponsored ISA – contact:

The Share Centre
PO Box 2000, Aylesbury, Bucks HP21 8ZB
tel: 0800 800 008; +44 1296 414 141
email enquiries: service@share.co.uk
website: www.share.com

(The tax advantages of ISAs depend on your individual circumstances and the benefits of ISAs could change in the future. You should note that investments, their value and the income they provide can go down as well as up and you might not get back what you originally invested.)

Capital gains tax

Fact sheet for British American Tobacco historical UK capital gains tax information; contact the British American Tobacco Company Secretarial Department, tel: +44 20 7845 1000 or access online at www.bat.com/cgt.

Share Fraud

The practice of share fraud (also known as 'boiler room' scams) unfortunately continues with many companies' shareholders receiving unsolicited phone calls or mail from people offering to sell them what often turn out to be worthless or high risk shares in US or UK investments, or to buy shares at an inflated price in return for an upfront payment.

If you suspect that you have been approached by fraudsters, please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768. If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at www.actionfraud.police.uk.

Calendar 2019

Thu 25 April at 11:30am	Annual General Meeting Hilton London Bankside, 2-8 Great Suffolk Street, London SE1 0UG. Details of the business to be proposed at the meeting are in the Notice of AGM, which is made available to all shareholders and is published on www.bat.com . BAT provides for the vote on each resolution to be by poll rather than by a show of hands. This provides for greater transparency and allows the votes of all shareholders to be counted, including those cast by proxy. The voting results will be released on the same day in accordance with regulatory requirements and made available on bat.com .
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Thu 1 Aug [Half-Year Report](#)

Shareholding administration and services continued

Quarterly Dividends for the year ended 31 December 2018

On 26 April 2017, the Group announced its move to quarterly dividends with effect from 1 January 2018.

The Board has declared an interim dividend of 203.0p per ordinary share of 25p which is payable in four equal quarterly instalments of 50.75p per ordinary share in May 2019, August 2019, November 2019 and February 2020. This represents an increase of 4.0% on 2017 (2017: 195.2p per share), and a payout ratio, on 2018 adjusted diluted earnings per share, of 68.4%.

The quarterly dividends will be paid to shareholders registered on either the UK main register or the South Africa branch register and to ADS holders, each on the applicable record dates set out under the heading 'Key dates' below.

Holders of American Depository Shares (ADSs)

For holders of ADSs listed on the New York Stock Exchange (NYSE), the record dates and payment dates are set out below. The equivalent quarterly dividends receivable by holders of ADSs in US dollars will be calculated based on the exchange rate on the applicable payment date.

South Africa branch register

In accordance with the JSE Limited (JSE) Listing Requirements, the finalisation information relating to shareholders registered on the South Africa branch register (comprising the amount of the dividend in South African rand, the exchange rate and the associated conversion date) will be published on the dates stated below, together with South Africa dividends tax information.

The quarterly dividends are regarded as 'foreign dividends' for the purposes of the South Africa Dividends Tax. For the purposes of South Africa Dividends Tax reporting, the source of income for the payment of the quarterly dividends is the United Kingdom.

Key dates

In compliance with the requirements of the London Stock Exchange (LSE), the NYSE and Strate, the electronic settlement and custody system used by the JSE, the following are the salient dates for the quarterly dividend payments. All dates are 2019 unless otherwise stated.

Event	Payment No. 1	Payment No. 2	Payment No. 3	Payment No. 4
Preliminary announcement (includes declaration data required for JSE purposes)			28 February 2019	
Publication of finalisation information (JSE)	11 March	18 June	23 September	12 December
No removal requests (in either direction) permitted between the UK main register and the South Africa branch register	11 March– 22 March (inclusive)	18 June– 28 June (inclusive)	23 September– 4 October (inclusive)	12 December– 27 December (inclusive)
Last day to trade (LDT) cum-dividend (JSE)	18 March	25 June	1 October	20 December
Shares commence trading ex-dividend (JSE)	19 March	26 June	2 October	23 December
No transfers permitted between the UK main register and the South Africa branch register	19 March– 22 March (inclusive)	26 June– 28 June (inclusive)	2 October– 4 October (inclusive)	23 December– 27 December (inclusive)
No shares to be dematerialised or rematerialised on the South Africa branch register	19 March– 22 March (inclusive)	26 June– 28 June (inclusive)	2 October– 4 October (inclusive)	23 December– 27 December (inclusive)
Shares commence trading ex-dividend (LSE)	21 March	27 June	3 October	24 December
Shares commence trading ex-dividend (NYSE)	21 March	27 June	3 October	26 December
Record date (LSE, JSE and NYSE)	22 March	28 June	4 October	27 December
Last date for receipt of Dividend Reinvestment Plan (DRIP) elections (LSE)	12 April	18 July	24 October	16 January 2020
Payment date (LSE and JSE)	8 May	8 August	14 November	6 February 2020
ADS payment date (NYSE)	13 May	13 August	19 November	11 February 2020

Note:
Further details of the total amounts of dividends paid in 2018 (with 2017 comparatives) are given in note 8 in the Notes on the Accounts of the Annual Report and Accounts.

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Incorporated in England and Wales No. 3407696

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tel: +27 21 003 6712

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Paul McCrory

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Jerome Abelman

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or John Harney
tel: +44 20 7845 1180

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