BRITISH AMERICAN TOBACCO

news release
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27 February 2014

**BRITISH AMERICAN TOBACCO p.l.c.**
**PRELIMINARY ANNOUNCEMENT – YEAR ENDED 31 DECEMBER 2013**

# ANOTHER STRONG PERFORMANCE

| KEY FINANCIALS | 2013 | | 2012 | Change | |
|---|---|---|---|---|---|
| | **Current rates** | **Constant rates** | Restated** | Current rates | Constant rates |
| Revenue | **£15,260m** | **£15,822m** | £15,190m | 0% | +4% |
| Adjusted profit from operations* | **£5,820m** | **£6,041m** | £5,641m | +3% | +7% |
| Profit from operations | **£5,526m** | **£5,747m** | £5,372m | +3% | +7% |
| Adjusted diluted earnings per share* | **216.6p** | **224.7p** | 205.2p | +6% | +10% |
| Basic earnings per share | **205.4p** | | 195.8p | +5% | |
| Dividends per share | **142.4p** | | 134.9p | +6% | |

*The non-GAAP measures, including adjusting items and constant currencies, are set out on page 18.
***The 2012 comparatives have been restated to take account of the revised IAS 19 Employee Benefits (see page 17).*

## FULL YEAR HIGHLIGHTS

- Group revenue was up by 4% at constant rates of exchange, mainly as a result of continued good pricing. Reported revenue was slightly higher due to exchange rate movements which adversely impacted three of the Group's four regions.
- Adjusted Group profit from operations increased by 3% and by 7% at constant rates of exchange.
- Reported profit from operations was 3% higher at £5,526 million.
- Operating margin grew strongly by 100 basis points to 38.1%.
- Basic earnings per share were up by 5% at 205.4p.
- At constant rates of exchange, adjusted diluted earnings per share were up by 10%, principally as a result of the growth in profit from operations. At current rates of exchange, it was 6% higher at 216.6p.
- The Board has recommended a final dividend of 97.4p, taking the 2013 total dividend to 142.4p per share, an increase of 6%.
- Group cigarette volume was 676 billion, a decline of 2.7%. Total tobacco volume was 2.6% lower.
- International brands grew volume by 2.1%, of which Global Drive Brands grew by 1.9%. The Group's cigarette market share continued to increase in its key markets.
- 44 million shares were bought back at a cost of £1.5 billion, excluding transaction costs. The Board agreed a £1.5 billion share buy-back programme for 2014.

## Richard Burrows, Chairman, commenting on the year ended 31 December 2013

"British American Tobacco continued to perform strongly in 2013, with another year of excellent earnings growth and cash flow, partially offset by currency headwinds. The Group's Global Drive Brands also achieved outstanding growth in market share and volume. Difficult trading conditions persist in some parts of the world, notably southern Europe, but these results demonstrate that the Group's strategy continues to deliver robust profit and dividend growth."

# CHIEF EXECUTIVE'S REVIEW

### We're delivering today and investing in tomorrow

British American Tobacco had another very good year in 2013, again meeting or exceeding our financial metrics. Revenue and market share continued to grow. Together our Global Drive Brands (GDBs) – Dunhill, Kent, Lucky Strike and Pall Mall – increased share and volume.

It was a challenging year for our people globally, but they responded with the enterprise and commitment I have come to expect. We adapted to changes in our business environment, faced some tough trading conditions and embraced a range of new opportunities, in both new product categories and new markets. We invested further in our existing key high growth markets, too.

### We've achieved another year of strong results

The Group's strong performance in 2013 was achieved against a backdrop of adverse exchange rate movements, lower industry volume and instability in some parts of the world.

At constant rates of exchange, revenue was up by 4% and adjusted profit from operations was up by 7%. Adjusted diluted earnings per share were up by 6% at current rates or 10% at constant rates of exchange.

Our adjusted operating margin improved significantly by 100 basis points, at the top end of our guidance of an increase of 50 to 100 basis points each year. This was achieved thanks to efforts right across our global organisation to address our cost base, to standardise our systems and deliver productivity savings year on year. A strong price-mix of 7% has also contributed to this excellent result.

Our return on capital employed (ROCE) has also improved considerably over the past few years. We have seen a steady increase in ROCE from 23% in 2009 to 31% in 2013, demonstrating that our investments are delivering growth.

### We're growing market share

In 2013 we successfully grew our market share in our key markets by 20 basis points, driven by the success of our GDBs, which were up by 60 basis points. Our share of the premium segment also grew, up by 80 basis points. However, cigarette volume from subsidiaries was lower by 2.7%, mainly as a result of industry declines.

Our international brands grew volume by 2.1%, of which our GDBs grew by 1.9%. Dunhill volume was up by 9.7% and Pall Mall grew by 4.4%. Kent's was 2.9% lower while Lucky Strike volume was down by 6.5%. Collectively, our GDBs now account for 35% of our total volume. From 2014, we have added Rothmans to our portfolio of GDBs, recognising the brand's strategic value to the Group.

Other tobacco products also performed very well, particularly Fine Cut tobacco, which was up 1.3% in Western Europe, driven by the continued success of Pall Mall and Lucky Strike. We also launched Vype, our first electronic cigarette, in the UK in 2013, making us the first international tobacco business to enter this new market.

### We look to the future with confidence

Challenges persist in 2014. Economic recovery is still fragile, particularly across southern Europe. However, we have shown a consistent ability to improve our operating margin and grow market share. The pricing environment also remains good.

We have a great brand portfolio, market-leading innovations and an outstanding range of high quality products. We maintain our firm commitment to invest in key growth markets and new product categories. Our scientific research into harm reduction, for instance, is helping us develop next-generation tobacco products, such as heat-not-burn, and nicotine-based products, like e-cigarettes.

In short, we have the expertise, the talented people and the global reach to succeed. Consumers have always been core to our success. We will continue to meet their needs by providing them with the superior and innovative products they want. We have a compelling strategy and proven capabilities in place to make this happen. I look forward to a gradually improving economic environment and BAT is well positioned to take advantage of this when it comes.

**Nicandro Durante**
26 February 2014

# REGIONAL REVIEW

**Adjusted profit from operations and volume** for the twelve months ended 31 December are:

| | **Adjusted profit from operations** | | | **Cigarette Volumes** | |
|---|---|---|---|---|---|
| | **2013** | | 2012 Restated | **2013** | 2012 |
| | **Constant rates £m** | **Current rates £m** | £m | **Bns** | Bns |
| Asia-Pacific | **1,787** | **1,693** | 1,663 | **197** | 188 |
| Americas | **1,453** | **1,364** | 1,391 | **134** | 142 |
| Western Europe | **1,222** | **1,273** | 1,175 | **119** | 129 |
| EEMEA | **1,579** | **1,490** | 1,412 | **226** | 235 |
| Total | **6,041** | **5,820** | 5,641 | **676** | 694 |
| Total tobacco volume | | | | **703** | 722 |

*References to profit in the performance of markets are at current rates of exchange. Adjusted profit from operations is derived after excluding adjusting items from profit from operations and are explained in the Group's non-GAAP measures on page 18. The 2012 numbers are restated to take account of the change in accounting policy (see pages 17 and 30).*

British American Tobacco performed well during the year with strong pricing and continued growth in Global Drive Brands. We met or exceeded all our long-term financial strategic objectives, on a constant currency basis. These excellent business results were, however, impacted by the weakness against sterling of some key currencies, notably the Brazilian real, South African rand, Japanese yen and Australian dollar. This was slightly offset by a stronger euro. The business performance was delivered against a backdrop of excise-driven price increases, industry contraction in some parts of the world and the fragile economic conditions in many countries.

Driven by a price-mix of 7%, revenue was up 4% at constant rates of exchange. At current rates, revenue was slightly higher.

Reported profit from operations was 3% higher at £5,526 million with a 3% increase in adjusted profit from operations, as explained on page 18. Adjusted profit from operations, at constant rates of exchange, grew by 7%.

Group cigarette volume from subsidiaries was 676 billion, down 2.7% from 694 billion in the previous year. Total tobacco volume was 2.6% lower. This was mainly the result of contracting industry volume in Western Europe and some key Group markets, such as Brazil, Russia, Ukraine, Turkey and South Africa, partially offset by strong performances in Bangladesh, Pakistan, Indonesia, Vietnam and the Middle East.

The Group's cigarette market share in its key markets was higher with growth of 20 basis points, while the share in the premium segment grew by an excellent 80 basis points.

Other tobacco products continued to perform well. Fine Cut volume in Western Europe grew by 1.3% to 21 billion sticks equivalent as a result of good growth in Italy, Belgium, Germany and Poland, partially offset by declines in the Netherlands and Greece.

**Regional review cont…**

Our international brands grew by 2.1%, of which the four Global Drive Brands achieved good volume growth of 1.9%.

Dunhill increased volume by 9.7% with growth in Indonesia, South Korea and the GCC, partially offset by declines in Malaysia, due to market contraction, and West Africa. Kent volume was down 2.9% on last year as declines, driven by market contractions in Russia, Japan and Romania, were partially offset by growth in the Middle East and Uzbekistan.

Lucky Strike volume was down by 6.5%, mainly driven by the market contraction in Spain, partially offset by higher volume in Philippines and Russia. Pall Mall volume rose by 4.4% with strong growth in Chile, Pakistan and Argentina, partially offset by lower volume in Russia, Serbia, Italy and Hungary.

Brands are reviewed from time to time to assess performance and increasing focus for investment. This review resulted in the decision to include Rothmans from 2014 as one of the Global Drive Brands. Rothmans performed well with strong growth in Russia, Ukraine, Algeria and Italy.

**Asia-Pacific: adjusted profit at constant rates of exchange increased by £124 million or 7%**
Adjusted profit was up £30 million to £1,693 million as a result of strong performances in Australia, New Zealand, Pakistan, Bangladesh and Taiwan, partially offset by South Korea and Japan, as well as continued investment in Indonesia and unfavourable exchange rate movements. At constant rates of exchange, profit would have increased by £124 million or 7%. Volume at 197 billion was 5% higher than last year, with increases in Pakistan, Bangladesh, Vietnam, Indonesia and Philippines, partially offset by lower volumes in Japan and Malaysia.

| Country | Performance |
|---|---|
| Australia | Profit was up strongly as a result of higher pricing and cost saving initiatives, partially offset by lower volume. Illicit trade increased following the introduction of plain packaging. Market share was lower. |
| New Zealand | Market share was higher, however, volume was impacted by the industry contraction. Profit grew strongly due to price increases and cost savings. |
| Japan | Despite significant competitor activity, there was good market share momentum exiting the year, driven by the introduction of innovations. Profit was adversely affected by a decrease in volume as a result of industry contraction, as well as exchange rate movements. |
| Malaysia | Market share grew strongly, driven by the excellent performance of Dunhill, strengthening the Group's leadership position. Profit was higher as the adverse impact of lower volume due to market contraction was offset by higher pricing. |
| Vietnam | The increase in volume and market share continued, driven by the strong performance of State Express 555. Profit increased as a result of growth in the premium segment, higher pricing and increased volume. |
| South Korea | Volume grew despite intense competitor activities resulting in market share slightly lower than last year. Dunhill held share and grew volume. Higher marketing investment, partially offset by cost savings, resulted in a decrease in profit. |
| Taiwan | Strong performances by Pall Mall and Lucky Strike contributed to a record high market share. An increase in volume, coupled with higher pricing, led to a strong increase in profit. |
| Pakistan | Impressive performances by Pall Mall and John Player Gold Leaf drove market share to a record high, strengthening the Group's leadership position. Profit increased significantly as a result of the higher volume, cost savings and increased pricing. |
| Bangladesh | An outstanding growth in profit was the result of a strong increase in market share and higher volume. |
| Indonesia | Significant increase in volume driven by Dunhill, the fastest growing brand in one of the largest tobacco markets in the world. Profitability was impacted by higher marketing investment, lower volume in low-priced brands and higher clove prices. |
| Philippines | As a result of the recent market entry following the removal of the discriminatory excise structure, Lucky Strike made good gains in volume and market share. |

**Americas: adjusted profit at constant rates of exchange increased by £62 million or 4%**

Adjusted profit declined by £27 million to £1,364 million, mainly due to exchange rate movements in Brazil and Venezuela. At constant rates of exchange, profit rose by £62 million or 4%. Good performances from Brazil, Canada and Mexico were partially offset by adverse exchange rate movements and lower contributions from Chile and Colombia. Volume was down 6% at 134 billion, mainly as a result of market contractions in Brazil, Argentina and Chile, partially offset by increases in Mexico and Venezuela.

| Country | Performance |
|---|---|
| Brazil | Profit growth was driven by higher pricing and cost savings. This good result was more than offset by adverse exchange rate movements. Market share rose strongly but volume was down due to market contraction after significant excise increases and a subsequent rise in illicit trade. |
| Canada | Profit grew, benefiting from the stronger performance in the premium segment, price increases and a lower cost base. Volume and market share were lower. |
| Mexico | Impressive market share growth was led by the excellent performance of Pall Mall and the capsules innovation. A significant increase in profit was the result of higher volume and improved pricing, while illicit trade volume reduced. |
| Argentina | The strong performance of Lucky Strike led to a higher market share and also to an increased share of the premium segment. Profit was lower as a result of reduced volume and inflation-driven cost pressures which were not fully recovered through higher pricing. |
| Chile | Although Dunhill and Pall Mall performed very well, profit was lower, impacted by a decrease in volume, while market share was slightly down. |
| Venezuela | Market share was higher, boosted by Viceroy and Lucky Strike, and overall volume increased. Profit was significantly down, driven by the transactional impact of the currency devaluation. |
| Colombia | Volume grew, however, market share was slightly lower. Profit was adversely impacted by one-off costs. |

**Western Europe: adjusted profit at constant rates of exchange increased strongly by £47 million or 4%**

Adjusted profit was up by £98 million to £1,273 million but at constant rates of exchange, the increase would have been £47 million or 4%. Industry volume declined sharply, affecting profit growth. There were strong profit performances in Germany, Switzerland, Belgium, Denmark, Sweden, the United Kingdom and Romania, partially offset by declines in Italy, the Netherlands and Spain. Cigarette volume was 8% lower at 119 billion, following market contractions in Italy, Spain, Poland, the Netherlands, Germany and France. Fine Cut volume at 21 billion sticks equivalent was up 1.3% as a result of increases in Italy, Germany, Poland and Belgium, partly offset by decreases in the Netherlands and Greece.

| Country | Performance |
|---|---|
| Italy | After its successful re-launch, Rothmans had good share growth and exited the year with continued momentum. Despite this, difficult trading conditions persist, which resulted in a profit decline. Share and volume in the Fine Cut segment grew. |
| Germany | Profit was up strongly. Cigarette volume was lower, in line with industry decline. Good share growth by Lucky Strike resulted in a stable overall market share. In the Fine Cut segment, share and volume grew due to the performance of Pall Mall. |
| France | Market share was stable with a good performance from Lucky Strike, although volume was lower, in line with the industry volume decline. Profit was stable, benefiting from exchange rate movements. |
| Switzerland | Profit grew as a result of higher pricing and lower costs, partially offset by volume and market share decline. |

| | |
|---|---|
| The Netherlands | Significant market contraction and declining market share resulted in lower volume, adversely impacting profit. |
| Belgium | Profit grew due to price increases, lower costs and strong growth in Fine Cut as a result of the good performance by Pall Mall. Cigarette volume and market share declined despite a strong growth by Lucky Strike. |
| Spain | Industry volume continued to fall sharply. Profit was adversely affected by volume decline and lower market share, partially offset by a lower cost base. |
| Romania | Excellent increase in market share was the result of the good performances of Dunhill and Pall Mall, although volume was lower. Profit was up, benefiting from price increases. |
| Poland | Decline in industry volume continued, adversely impacting volume and profit. Our market share was down, however, Lucky Strike performed well and Fine Cut volume grew. |
| United Kingdom | Good performances from Pall Mall and Rothmans led to increased market share although volume was lower. Profit grew strongly due to price increases, cost management and increased Fine Cut volume. |
| Denmark | Significant profit and volume growth was due to higher sales in December in anticipation of an excise duty increase in January 2014. |

**Eastern Europe, Middle East and Africa: adjusted profit at constant rates of exchange increased by £167 million or 12%**

Adjusted profit increased by £78 million to £1,490 million. This was principally due to strong performances in Russia, the GCC and Ukraine and price increases, partially offset by a decrease in profit from Nigeria and the adverse impact of exchange rate movements. At constant rates of exchange, profit would have increased by £167 million or 12%. Volume at 226 billion was 4% lower than last year with the declines in Russia, Ukraine, Turkey, Egypt and South Africa, partially offset by an increase in the GCC.

| Country | Performance |
|---|---|
| Russia | Strong share growth was driven by the impressive performance of Rothmans and the encouraging launch of Lucky Strike. Kent maintained its leadership position of the premium segment, contributing to the good profit growth. Volume was down. |
| Ukraine | A substantial profit increase was the result of pricing and an improved product mix, while strong market share growth was driven by excellent performances from Kent and Rothmans. Sharp industry volume decline and increased illicit trade led to lower volume. |
| Turkey | Continued volume decline adversely impacted profit and market share, despite growth by Viceroy and Kent. |
| The GCC | An impressive increase in profit was due to higher volume and price increases. The growth in market share was mainly due to the performance of Dunhill. |
| Egypt | Despite a good performance from Viceroy, market instability led to lower volume, adversely impacting profit. |
| Nigeria | Increased instability and competitor activities in the north and south-eastern parts of the country resulted in lower volume, adversely affecting profits. |
| South Africa | Profit grew as a result of price increases but this was more than offset by the adverse exchange rate movement. Volume was lower and market share was slightly down as a result of price competition. |

## 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 pages 19 and 20.

### REGIONAL INFORMATION

| For the year ended 31 December | Asia-Pacific | Americas | Western Europe | EEMEA | Total |
|---|---|---|---|---|---|
| **SUBSIDIARIES** | | | | | |
| **Volume (cigarette billions)** | | | | | |
| 2013 | 197 | 134 | 119 | 226 | 676 |
| 2012 | 188 | 142 | 129 | 235 | 694 |
| Change | +5% | -6% | -8% | -4% | -3% |
| **Revenue (£m)** | | | | | |
| 2013 (at constant) | 4,448 | 3,579 | 3,493 | 4,302 | 15,822 |
| 2013 (at current) | 4,203 | 3,317 | 3,635 | 4,105 | 15,260 |
| 2012 | 4,214 | 3,460 | 3,442 | 4,074 | 15,190 |
| Change (at constant) | +6% | +3% | +1% | +6% | +4% |
| Change (at current) | 0% | -4% | +6% | +1% | 0% |
| **Adjusted profit from operations (£m)** | | | | | |
| 2013 (at constant) | 1,787 | 1,453 | 1,222 | 1,579 | 6,041 |
| 2013 (at current) | 1,693 | 1,364 | 1,273 | 1,490 | 5,820 |
| 2012 Restated | 1,663 | 1,391 | 1,175 | 1,412 | 5,641 |
| Change (at constant) | +7% | +4% | +4% | +12% | +7% |
| Change (at current) | +2% | -2% | +8% | +6% | +3% |
| **Operating margin based on adjusted profit (%)** | | | | | |
| 2013 (at current) | 40.3% | 41.1% | 35.0% | 36.3% | 38.1% |
| 2012 Restated | 39.5% | 40.2% | 34.1% | 34.7% | 37.1% |

*Volume change percentages, where shown, are based on absolute numbers.

## Regional review cont…

### REGIONAL INFORMATION

| For the year ended 31 December | Asia-Pacific | Americas | Western Europe | EEMEA | Total |
|---|---|---|---|---|---|
| **ASSOCIATES AND JOINT VENTURES** | | | | | |
| **Share of post-tax results of associates and joint ventures (£m)** | | | | | |
| 2013 (at current) | 294 | 439 | - | 6 | 739 |
| 2012 Restated | 265 | 409 | - | 2 | 676 |
| Change | +11% | +7% | - | +200% | +9% |
| **Share of adjusted post-tax results of associates and joint ventures (£m)** | | | | | |
| 2013 (at constant) | 293 | 439 | - | 6 | 738 |
| 2013 (at current) | 272 | 445 | - | 6 | 723 |
| 2012 Restated | 245 | 434 | - | 2 | 681 |
| Change (at constant) | +20% | +1% | - | +200% | +8% |
| Change (at current) | +11% | +3% | - | +200% | +6% |

### GROUP

| For the year ended 31 December | Total |
|---|---|
| **Underlying tax rate of subsidiaries (%)** | |
| 2013 | 30.7% |
| 2012 Restated | 30.6% |
| **Adjusted diluted earnings per share (pence)** | |
| 2013 (at constant) | 224.7 |
| 2013 (at current) | 216.6 |
| 2012 Restated | 205.2 |
| Change (at constant) | +10% |
| Change (at current) | +6% |
| **Return on capital employed** | |
| 2013 | 31% |
| 2012 | 29% |

# FINANCIAL INFORMATION AND OTHER

## NET FINANCE COSTS

Net finance costs at £466 million were £10 million higher than last year, reflecting the Group's increased borrowings.

Net finance costs comprise:

| | **2013** | 2012 |
|---|---|---|
| | **£m** | £m |
| Finance costs | **(532)** | (505) |
| Finance income | **66** | 49 |
| | **(466)** | (456) |
| Comprising: | | |
| Interest payable | **(614)** | (580) |
| Interest and dividend income | **64** | 84 |
| Net impact of fair value and exchange | **84** | 40 |
| - fair value changes - derivatives | **103** | 71 |
| - exchange differences | **(19)** | (31) |
| | **(466)** | (456) |

## RESULTS OF ASSOCIATES

The Group's share of post-tax results of associates increased by £63 million, or 9%, to £739 million. The Group's share of the adjusted post-tax results of associates increased by 6% to £723 million, with a rise of 8% at constant rates of exchange.

The adjusted contribution from Reynolds American increased by 2% to £441 million. At constant rates of exchange the increase was 1%. The Group's adjusted contribution from its associate in India, ITC, was £265 million, up 12%. At constant rates of exchange, the contribution would have been 21% higher than last year.

See page 22 for the adjusting items.

## TAXATION

| | **2013** | 2012 Restated |
|---|---|---|
| | **£m** | £m |
| UK | | |
| - current year tax | **-** | - |
| Overseas | | |
| - current year tax expense | **1,581** | 1,556 |
| - adjustment in respect of prior periods | **(14)** | (18) |
| Current tax | **1,567** | 1,538 |
| Deferred tax | **33** | (22) |
| | **1,600** | 1,516 |

The tax rates in the income statement of 27.6% in 2013 and 27.1% (restated) in 2012 are affected by the inclusion of the share of associates' post-tax profit in the Group's pre-tax results and by adjusting items. The underlying tax rate for subsidiaries reflected in the adjusted earnings per share was 30.7% in 2013 and 30.6% (restated) in 2012. The slight increase is mainly due to a change in the mix of profits. The charge relates to taxes payable overseas.

Refer to page 33 for the Franked Investment Income Group Litigation Order update.

## FREE CASH FLOW AND NET DEBT

Operating cash flow increased by £233 million, or 5%, to £5,320 million, reflecting the growth in underlying operating performance and lower net capital expenditure, partially offset by working capital movements. The higher cash outflows in respect of the net movement relating to pension funds, net interest paid, dividends paid to non-controlling interests and restructuring costs, together with lower dividends and other appropriations from associates (due to the Reynolds American share buy-back being £73 million lower at £189 million) were partially offset by lower tax paid. These led to the Group's free cash flow increasing by £112 million or 3% to £3,371 million.

The ratio of free cash flow per share to adjusted diluted earnings per share was 82% (2012 restated: 81%).

Closing net debt at £9,515 million was up £1,042 million from £8,473 million as at 31 December 2012.

The Group's alternative cash flow statement is shown on page 23 and explained on page 18 under non-GAAP measures.

## RISKS AND UNCERTAINTIES

The Board's assessment of the key risks and uncertainties facing the Group has remained broadly unchanged over the past year, particularly regarding illicit trade, excise and tax and financial risk. However, in the course of the year, the Board decided to increase its focus, as a key risk, of failing to lead the development of the non-tobacco nicotine market, in order to recognise the importance to the Group of its Nicoventures business.

Regulatory risks facing the Group have been addressed in our risk register for a number of years, and reported as key risks previously. In previous years, sub-categories of risk relating to product ingredients regulation and advertising and packaging restrictions were presented separately to broader regulatory risk. This year, we are treating regulation as a single risk, combining its various elements, and reflecting the Group's renewed focus on an integrated approach to its regulatory risk management programme.

Full details of all key Group risks will be included in the Annual Report for the year ended 31 December 2013.

## GOING CONCERN

A description of the Group's business activities, its financial position, cash flows, liquidity position, facilities and borrowings position, together with the factors likely to affect its future development, performance and position, are set out in this announcement. Further information will be provided in the Strategic Report and in the notes to the financial statements, all of which will be included in the 2013 Annual Report.

The Group has, at the date of this report, sufficient existing financing available for its estimated requirements for at least the next 12 months. This, together with the proven ability to generate cash from trading activities, the performance of the Group's Global Drive Brands, its leading market positions in a number of countries and its broad geographical spread, as well as numerous contracts with established customers and suppliers across different geographical areas and industries, provides the Directors with the confidence that the Group is well placed to manage its business risks successfully in the context of current financial conditions and the general outlook in the global economy.

After reviewing the Group's annual budget, plans and financing arrangements, 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 the Annual Report.

## BOARD CHANGES

Further to the announcement made on 31 July 2013, John Daly stood down as Chief Operating Officer on 31 December 2013. During the first quarter of 2014 he has focused on the transitioning of key projects and initiatives. He will retire as an Executive Director on 6 April 2014.

Anthony Ruys (member of the Audit Committee) will be standing down as a Non-Executive Director of the Company at the conclusion of the Annual General Meeting on 30 April 2014, having served eight years on the Board. In the context of this forthcoming retirement, Christine Morin-Postel (Senior Independent Director) was appointed a member of the Audit Committee with effect from 6 January 2014.

Savio Kwan, having been appointed a Non-Executive Director on 6 January 2014, became a member of the Corporate Social Responsibility Committee in place of Christine Morin-Postel who stood down from that role on that date.

## DIRECTORS' RESPONSIBILITY STATEMENT

The responsibility statement below has been prepared in connection with the company's full Annual Report for the year ended 31 December 2013. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with UK GAAP and IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group respectively; and

- the Directors' report and the Strategic Report include a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the Board of Directors on 26 February 2014 and is signed on its behalf by:

| | |
|---|---|
| Richard Burrows | Ben Stevens |
| Chairman | Finance Director and Chief Information Officer |

26 February 2014

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**ENQUIRIES:**


**INVESTOR RELATIONS:**

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

**PRESS OFFICE:**

| | |
|---|---|
| Will Hill/Annie Brown | 020 7845 2888 |


**Webcast and Conference Call**

A live webcast of the results is available via www.bat.com/ir.
If you wish to listen to the presentation via a conference call facility please use the dial in details below:
Dial in number +44 (0) 20 3139 4830
Please quote Passcode: 6961450#

**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: 636263#

## GROUP INCOME STATEMENT

For the year ended 31 December

| | 2013 £m | 2012 Restated £m |
|---|---|---|
| Gross turnover (including duty, excise and other taxes of £30,925 million (2012: £30,682 million)) | **46,185** | 45,872 |
| **Revenue** | **15,260** | 15,190 |
| Raw materials and consumables used | **(3,348)** | (3,445) |
| Changes in inventories of finished goods and work in progress | **105** | 133 |
| Employee benefit costs | **(2,384)** | (2,426) |
| Depreciation, amortisation and impairment costs | **(477)** | (475) |
| Other operating income | **302** | 245 |
| Other operating expenses | **(3,932)** | (3,850) |
| **Profit from operations** | **5,526** | 5,372 |
| Analysed as: | | |
| – adjusted profit from operations | **5,820** | 5,641 |
| – restructuring and integration costs | **(246)** | (206) |
| – amortisation of trademarks and similar intangibles | **(74)** | (63) |
| – gain on deemed partial disposal of a trademark | **26** | - |
| | **5,526** | 5,372 |
| Net finance costs | **(466)** | (456) |
| Finance income | **66** | 49 |
| Finance costs | **(532)** | (505) |
| Share of post-tax results of associates and joint ventures | **739** | 676 |
| Analysed as: | | |
| – adjusted share of post-tax results of associates and joint ventures | **723** | 681 |
| – issue of shares and change in shareholding | **22** | 20 |
| – restructuring and integration costs | **(4)** | (24) |
| – other (see page 22) | **(2)** | (1) |
| | **739** | 676 |
| **Profit before taxation** | **5,799** | 5,592 |
| Taxation on ordinary activities | **(1,600)** | (1,516) |
| **Profit for the year** | **4,199** | 4,076 |
| **Attributable to:** | | |
| Owners of the parent | **3,904** | 3,797 |
| Non-controlling interests | **295** | 279 |
| | **4,199** | 4,076 |
| **Earnings per share** | | |
| Basic | **205.4p** | 195.8p |
| Diluted | **204.6p** | 194.8p |
| Adjusted diluted | **216.6p** | 205.2p |

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

The accompanying notes on pages 8 and 17 to 34 form an integral part of this condensed consolidated financial information.

Restatement: see page 17.

## GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

| | 2013 | 2012 Restated |
|---|---|---|
| | £m | £m |
| **Profit for the year (page 11)** | **4,199** | 4,076 |
| | | |
| **Other comprehensive income** | | |
| **Items that may be reclassified subsequently to profit or loss:** | **(1,025)** | (337) |
| Differences on exchange | | |
| – subsidiaries | **(972)** | (379) |
| – associates | **(141)** | (145) |
| Cash flow hedges | | |
| – net fair value gains/(losses) | **94** | (11) |
| – reclassified and reported in profit for the year | **(49)** | 71 |
| – reclassified and reported in net assets | **(1)** | 12 |
| Available-for-sale investments | | |
| – net fair value losses | **(7)** | (3) |
| – reclassified and reported in profit for the year | **-** | (1) |
| Net investment hedges | | |
| – net fair value gains | **89** | 106 |
| – differences on exchange on borrowings | **(25)** | 49 |
| Tax on items that may be reclassified | **(13)** | (36) |
| **Items that will not be reclassified subsequently to profit or loss:** | **355** | (306) |
| Retirement benefit schemes | | |
| – net actuarial gains/(losses) in respect of subsidiaries | **308** | (381) |
| – surplus recognition and minimum funding obligations in respect of subsidiaries | **(5)** | 60 |
| – actuarial gains/(losses) in respect of associates net of tax | **90** | (39) |
| Tax on items that will not be reclassified | **(38)** | 54 |
| **Total other comprehensive income for the year, net of tax** | **(670)** | (643) |
| **Total comprehensive income for the year, net of tax** | **3,529** | 3,433 |
| | | |
| **Attributable to:** | | |
| Owners of the parent | **3,272** | 3,163 |
| Non-controlling interests | **257** | 270 |
| | **3,529** | 3,433 |

The accompanying notes on pages 8 and 17 to 34 form an integral part of this condensed consolidated financial information.

Restatement: see page 17.

## GROUP STATEMENT OF CHANGES IN EQUITY

At 31 December

**2013**

| | 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 2013** | **507** | **3,916** | **796** | **2,253** | **7,472** | **307** | **7,779** |
| Total comprehensive income for the year (page 12) | - | - | **(986)** | **4,258** | **3,272** | **257** | **3,529** |
| Profit for the year | - | - | - | **3,904** | **3,904** | **295** | **4,199** |
| Other comprehensive income for the year | - | - | **(986)** | **354** | **(632)** | **(38)** | **(670)** |
| Employee share options | | | | | | | |
| – value of employee services | - | - | - | **61** | **61** | - | **61** |
| – proceeds from shares issued | - | **3** | - | **1** | **4** | - | **4** |
| Dividends and other appropriations | | | | | | | |
| – ordinary shares | - | - | - | **(2,611)** | **(2,611)** | - | **(2,611)** |
| – to non-controlling interests | - | - | - | - | - | **(271)** | **(271)** |
| Purchase of own shares | | | | | | | |
| – held in employee share ownership trusts | - | - | - | **(74)** | **(74)** | - | **(74)** |
| – share buy-back programme | - | - | - | **(1,509)** | **(1,509)** | - | **(1,509)** |
| Non-controlling interests - capital injection | - | - | - | - | - | **8** | **8** |
| Other movements | - | - | - | **19** | **19** | - | **19** |
| **Balance at 31 December 2013** | **507** | **3,919** | **(190)** | **2,398** | **6,634** | **301** | **6,935** |

2012

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

The accompanying notes on pages 8 and 17 to 34 form an integral part of this condensed consolidated financial information.
Restatement: see page 17.

## GROUP BALANCE SHEET

At 31 December

| | **2013** | 2012 |
|---|---|---|
| | **£m** | £m |
| **Assets** | | |
| **Non-current assets** | | |
| Intangible assets | **11,205** | 11,710 |
| Property, plant and equipment | **3,156** | 3,201 |
| Investments in associates and joint ventures | **2,299** | 2,330 |
| Retirement benefit assets | **135** | 105 |
| Deferred tax assets | **248** | 327 |
| Trade and other receivables | **171** | 224 |
| Available-for-sale investments | **36** | 37 |
| Derivative financial instruments | **113** | 207 |
| **Total non-current assets** | **17,363** | 18,141 |
| **Current assets** | | |
| Inventories | **4,042** | 4,026 |
| Income tax receivable | **95** | 83 |
| Trade and other receivables | **2,876** | 2,741 |
| Available-for-sale investments | **54** | 26 |
| Derivative financial instruments | **312** | 166 |
| Cash and cash equivalents | **2,106** | 2,081 |
| | **9,485** | 9,123 |
| Assets classified as held-for-sale | **33** | 63 |
| **Total current assets** | **9,518** | 9,186 |
| **Total assets** | **26,881** | 27,327 |

The accompanying notes on pages 8 and 17 to 34 form an integral part of this condensed consolidated financial information.

## GROUP BALANCE SHEET

At 31 December

| | **2013** | 2012 |
|---|---|---|
| | **£m** | £m |
| **Equity** | | |
| **Capital and reserves** | | |
| Share capital | **507** | 507 |
| Share premium, capital redemption and merger reserves | **3,919** | 3,916 |
| Other reserves | **(190)** | 796 |
| Retained earnings | **2,398** | 2,253 |
| Owners of the parent | **6,634** | 7,472 |
| after deducting | | |
| – cost of treasury shares | **(4,325)** | (2,824) |
| Non-controlling interests | **301** | 307 |
| **Total equity** | **6,935** | 7,779 |
| **Liabilities** | | |
| **Non-current liabilities** | | |
| Borrowings | **9,716** | 9,083 |
| Retirement benefit liabilities | **632** | 1,152 |
| Deferred tax liabilities | **514** | 500 |
| Other provisions for liabilities and charges | **387** | 419 |
| Trade and other payables | **131** | 166 |
| Derivative financial instruments | **130** | 86 |
| **Total non-current liabilities** | **11,510** | 11,406 |
| **Current liabilities** | | |
| Borrowings | **1,980** | 1,636 |
| Income tax payable | **487** | 404 |
| Other provisions for liabilities and charges | **194** | 210 |
| Trade and other payables | **5,741** | 5,827 |
| Derivative financial instruments | **34** | 65 |
| **Total current liabilities** | **8,436** | 8,142 |
| **Total equity and liabilities** | **26,881** | 27,327 |

The accompanying notes on pages 8 and 17 to 34 form an integral part of this condensed consolidated financial information.

## GROUP CASH FLOW STATEMENT

For the year ended 31 December

| | **2013** | 2012 |
|---|---|---|
| | **£m** | £m |
| **Cash flows from operating activities** | | |
| Cash generated from operations (page 25) | **5,366** | 5,437 |
| Dividends received from associates | **510** | 486 |
| Tax paid | **(1,440)** | (1,496) |
| **Net cash generated from operating activities** | **4,436** | 4,427 |
| **Cash flows from investing activities** | | |
| Interest received | **70** | 72 |
| Dividends received from investments | **2** | 2 |
| Purchases of property, plant and equipment | **(574)** | (664) |
| Proceeds on disposal of property, plant and equipment | **173** | 56 |
| Purchases of intangibles | **(147)** | (140) |
| Purchases and proceeds on disposals of investments | **(32)** | 24 |
| Proceeds from associate's share buy-back | **189** | 262 |
| Purchase of subsidiaries | **(16)** | (12) |
| **Net cash used in investing activities** | **(335)** | (400) |
| **Cash flows from financing activities** | | |
| Interest paid | **(570)** | (564) |
| Interest element of finance lease rental payments | **(1)** | (1) |
| Capital element of finance lease rental payments | **(2)** | (5) |
| Proceeds from issue of shares to owners of the parent | **3** | 4 |
| Proceeds from the exercise of options over own shares held in employee share ownership trusts | **1** | 1 |
| Proceeds from increases in and new borrowings | **2,428** | 2,539 |
| Movements relating to derivative financial instruments | **54** | 93 |
| Purchases of own shares | **(1,509)** | (1,258) |
| Purchases of own shares held in employee share ownership trusts | **(74)** | (121) |
| Purchases of non-controlling interests | **-** | (24) |
| Reductions in and repayments of borrowings | **(1,421)** | (1,821) |
| Dividends paid to owners of the parent | **(2,611)** | (2,538) |
| Dividends paid to non-controlling interests | **(265)** | (259) |
| **Net cash used in financing activities** | **(3,967)** | (3,954) |
| **Net cash flows generated from operating, investing and financing activities** | **134** | 73 |
| Differences on exchange | **(197)** | (176) |
| **Decrease in net cash and cash equivalents in the year** | **(63)** | (103) |
| Net cash and cash equivalents at 1 January | **1,839** | 1,942 |
| **Net cash and cash equivalents at 31 December** | **1,776** | 1,839 |

The accompanying notes on pages 8 and 17 to 34 form an integral part of this condensed consolidated financial information.

## ACCOUNTING POLICIES AND BASIS OF PREPARATION

The condensed consolidated financial information has been extracted from the Annual Report, including the audited financial statements for the year ended 31 December 2013. This condensed consolidated financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

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

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

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

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

In addition, with effect from 1 January 2013, the Group has adopted a number of minor changes to IFRS, including the amendment to IAS 1 *Presentation of Financial Statements* which changes the presentation of certain items within other comprehensive income, and IFRS 13 *Fair Value Measurement* which provides a single source of fair value measurement and disclosure requirements for use across IFRS. The implementation of IFRS 13 does not require a restatement of historical transactions.

The preparation of these condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the date of these condensed consolidated financial statements. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management’s best judgement at the date of the condensed consolidated financial statements. In the future, actual experience may deviate from these estimates and assumptions, which could affect these condensed consolidated financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

## NON-GAAP MEASURES

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

The principal non-GAAP measures which the Group uses are adjusted profit from operations and adjusted diluted earnings per share, which are reconciled to profit from operations and diluted earnings per share. Adjusting items are significant items in the profit from operations, net finance costs, taxation and the Group's share of the post-tax results of associates and joint ventures which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance. While the disclosure of adjusting items is not required by IFRS, these items are separately disclosed either as memorandum information on the face of the income statement and in the segmental analysis, or in the notes to the accounts as appropriate. The adjusting items are used to calculate the non-GAAP measures of adjusted profit from operations, adjusted share of post-tax results of associates and joint ventures and adjusted diluted earnings per share.

All adjustments to profit from operations and diluted earnings per share are explained in this announcement. See pages 21, 22 and 27.

The Management Board, as the chief operating decision maker, reviews current and prior year adjusted segmental income statement information of subsidiaries, joint operations and associates and joint ventures at constant rates of exchange which provides an approximate guide to performance in the current year had they been translated at last year's rate of exchange. The constant rate comparison provided for reporting segment information is based on a retranslation, at prior year exchange rates, of the current year results of the Group's overseas entities but other than in exceptional circumstances, does not adjust for the normal transactional gains and losses in operations which are generated by exchange movements. As an additional measure to indicate the impact of the exchange rate movement on the Group results, the principal measure of adjusted diluted earnings per share is also shown at constant rates of exchange. See page 20.

In the presentation of financial information, the Group also uses another measure, organic growth, to analyse underlying business performance. Organic growth is the growth after adjusting for mergers and acquisitions and discontinued activities. Adjustments would be made to current and prior year numbers, based on the 2013 Group position but for the year to 31 December 2013 no adjustments are necessary. See page 19.

The Group prepares an alternative cash flow, which includes a measure of 'free cash flow', to illustrate the cash flows before transactions relating to borrowings. A net debt summary is also provided. See pages 23 and 24. 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 2/2013 'Headline Earnings' issued by the South African Institute of Chartered Accountants. These are shown on page 27.

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

## REVENUE

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Reported revenue £m | Impact of exchange £m | Revenue at CC(1) £m | Organic adjustments(2) £m | Organic revenue at CC(1) £m |
| Asia-Pacific | **4,203** | **245** | **4,448** | **-** | **4,448** |
| Americas | **3,317** | **262** | **3,579** | **-** | **3,579** |
| Western Europe | **3,635** | **(142)** | **3,493** | **-** | **3,493** |
| EEMEA | **4,105** | **197** | **4,302** | **-** | **4,302** |
| **Total** | **15,260** | **562** | **15,822** | **-** | **15,822** |

| | 2012 | | |
|---|---|---|---|
| | Reported revenue £m | Organic adjustments(2) £m | Organic revenue £m |
| Asia-Pacific | 4,214 | - | 4,214 |
| Americas | 3,460 | - | 3,460 |
| Western Europe | 3,442 | - | 3,442 |
| EEMEA | 4,074 | - | 4,074 |
| Total | 15,190 | - | 15,190 |

## PROFIT FROM OPERATIONS

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Reported PFO(3) £m | Adjusting items £m | Adjusted PFO(3) £m | Impact of exchange £m | Adjusted PFO(3) @ CC(1) £m | Organic adjustments(2) £m | Organic PFO(3) @ CC(1) £m |
| Asia-Pacific | **1,672** | **21** | **1,693** | **94** | **1,787** | **-** | **1,787** |
| Americas | **1,303** | **61** | **1,364** | **89** | **1,453** | **-** | **1,453** |
| Western Europe | **1,133** | **140** | **1,273** | **(51)** | **1,222** | **-** | **1,222** |
| EEMEA | **1,418** | **72** | **1,490** | **89** | **1,579** | **-** | **1,579** |
| **Total** | **5,526** | **294** | **5,820** | **221** | **6,041** | **-** | **6,041** |

| | 2012 Restated (4) | | | | |
|---|---|---|---|---|---|
| | Reported PFO(3) £m | Adjusting items £m | Adjusted PFO(3) £m | Organic Adjustments(2) £m | Organic PFO(3) £m |
| Asia-Pacific | 1,583 | 80 | 1,663 | - | 1,663 |
| Americas | 1,327 | 64 | 1,391 | - | 1,391 |
| Western Europe | 1,076 | 99 | 1,175 | - | 1,175 |
| EEMEA | 1,386 | 26 | 1,412 | - | 1,412 |
| Total | 5,372 | 269 | 5,641 | - | 5,641 |

## DILUTED EARNINGS PER SHARE

| | 2013 | | | | |
|---|---|---|---|---|---|
| | **Reported £m** | **Adjusting items £m** | **Adjusted £m** | **Impact of exchange £m** | **Adjusted @ CC(1) £m** |
| Profit from subsidiaries | **5,526** | **294** | **5,820** | **221** | **6,041** |
| Net Finance costs | **(466)** | **-** | **(466)** | **2** | **(464)** |
| Associates and joint ventures | **739** | **(16)** | **723** | **15** | **738** |
| Profit before tax | **5,799** | **278** | **6,077** | **238** | **6,315** |
| Taxation | **(1,600)** | **(46)** | **(1,646)** | **(71)** | **(1,717)** |
| Non-controlling interest | **(295)** | **(3)** | **(298)** | **(13)** | **(311)** |
| Profit attributable to shareholders | **3,904** | **229** | **4,133** | **154** | **4,287** |
| Diluted number of shares | **1,908** | | **1,908** | | **1,908** |
| Diluted earnings per share (pence) | **204.6** | | **216.6** | | **224.7** |

| | 2012 Restated (4) | | |
|---|---|---|---|
| | Reported £m | Adjusting items £m | Adjusted £m |
| Profit from subsidiaries | 5,372 | 269 | 5,641 |
| Net Finance costs | (456) | - | (456) |
| Associates and joint ventures | 676 | 5 | 681 |
| Profit before tax | 5,592 | 274 | 5,866 |
| Taxation | (1,516) | (70) | (1,586) |
| Non-controlling interest | (279) | (1) | (280) |
| Profit attributable to shareholders | 3,797 | 203 | 4,000 |
| Diluted number of shares | 1,949 | | 1,949 |
| Diluted earnings per share (pence) | 194.8 | | 205.2 |

**Notes:**

(1) CC: Constant currencies
(2) Organic adjustments: No organic adjustments were required for events in 2013.
(3) PFO: Profit from operations
(4) The 2012 results have been restated for the adoption of the revised IAS 19 *Employee Benefits* (see page 17).

## 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 18. 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 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:

| | **2013** | 2012 |
|---|---|---|
| | **£m** | £m |
| Employee benefit costs | **140** | 96 |
| Depreciation and impairment costs | **11** | 26 |
| Other operating expenses | **161** | 100 |
| Other operating income | **(66)** | (16) |
| Total | **246** | 206 |

Restructuring and integration costs in 2013 principally relate to the restructuring initiatives directly related to implementation of a new operating model, the continuation of factory closures in Australia and Russia and restructurings in the Democratic Republic of the Congo, Switzerland and Germany. The costs also cover separation packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group.

Restructuring and integration costs in 2012 principally related to the implementation of the new operating model, and factory restructurings in Australia and Argentina. The costs also cover the social plan and other activities relating to the Bremen factory closure in Germany, the integration of Productora Tabacalera de Colombia, S.A.S. (Protabaco) into existing operations, as well as the write-off of non-compliant products and materials related to the implementation of plain packaging in Australia. In addition, they also included separation packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group.

Other operating income in 2013 includes gains from the sale of land and buildings in Australia, Denmark and Russia. In 2012, other operating income includes gains from the sale of land and buildings in the UK and South Africa and the release of deferred income from a disposal in 2007.

### (b) Amortisation of trademarks and similar intangibles

The acquisitions of Protabaco, Bentoel, Tekel, ST and CN Creative Limited, as well as the creation of CTBAT International Ltd, resulted in the capitalisation of trademarks and similar intangibles which are amortised over their expected useful lives, which do not exceed 20 years. The amortisation charge of £74 million (2012: £63 million) is included in depreciation, amortisation and impairment costs in the profit from operations.

### (c) Gain on deemed partial disposal of a trademark

The contribution of the State Express 555 brand to CTBAT International Ltd is accounted for at fair value in the arrangement. This resulted in a £26 million gain on deemed partial disposal of a trademark which is included in other operating income but has been treated as an adjusting item. See page 30.

## 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 27.

In 2013, the Group's interest in ITC decreased from 30.72% to 30.47% as a result of ITC issuing ordinary shares under the company's employee stock option scheme. The issue of shares and change in the Group's share of ITC resulted in a gain of £22 million, which is treated as a deemed partial disposal and included in the income statement.

During the year, Reynolds American recognised restructuring charges of US$24 million in respect of its overall activities. The Group's share of these charges is £4 million (net of tax).

During 2013, Reynolds American has also recognised amounts which have been combined in the table of adjusting items in the Group income statement and are shown as "other". These include costs of US$18 million in respect of a number of Engle progeny lawsuits, the Group's share of which is £3 million (net of tax); costs of US$34 million relating to other tobacco related litigation charges, the Group's share of which is £6 million (net of tax); trademark amortisation and impairment of US$27 million, the Group's share of which is £4 million (net of tax) and costs of US$124 million relating to losses on extinguishment of debt, the Group's share of which is £22 million (net of tax). In addition, during 2013 Reynolds American, various other tobacco manufacturers, 19 states, the District of Columbia and Puerto Rico reached a final agreement related to Reynolds American's 2003 Master Settlement Agreement (MSA) activities. Under this agreement Reynolds American will receive credits, currently estimated to be more than US$1 billion, in respect of its Non- Participating Manufacturer (NPM) Adjustment claims related to the period from 2003 to 2012. These credits will be applied against the company's MSA payments over the next five years, subject to meeting the various ongoing performance obligations. During 2013, Reynolds American has recognised income of US$219 million related to its 2012 liability, the Group's share of which is £33 million (net of tax). Credits claimable against 2013 and future years will be accounted for in the applicable year and will not be treated as adjusting items.

In 2012, the Group's interest in ITC decreased from 31.04% to 30.72% as a result of ITC issuing ordinary shares under the company's employee stock option scheme. This resulted in a gain of £20 million, which was treated as a deemed partial disposal and included in the income statement.

During 2012, Reynolds American recognised restructuring charges of US$149 million and the Group's share of these charges amounted to £24 million (net of tax).

In the year ended 31 December 2012, Reynolds American also recognised amounts which have been combined in the table of adjusting items and reported in "other". These mainly consist of a charge of US$37 million in respect of a number of Engle progeny lawsuits, the Group's share of which amounted to £6 million (net of tax); and trademark amortisation and impairment of US$86 million, the Group's share of which amounted to £16 million (net of tax). These charges were offset by a gain of US$157 million resulting from the amendment by Reynolds American of a post-employment medical plan, the Group's share of which amounted to £24 million (net of tax).

## CASH FLOW AND NET DEBT MOVEMENTS

### a) Alternative cash flow

The IFRS cash flow statement on page 16 includes all transactions affecting cash and cash equivalents, including financing. The alternative cash flow statement below is presented to illustrate the cash flows before transactions relating to borrowings.

| | **2013** | 2012 Restated* |
|---|---|---|
| | **£m** | £m |
| Adjusted profit from operations (page 11) | **5,820** | 5,641 |
| Depreciation, amortisation and impairment | **392** | 385 |
| Other non-cash items in operating profit | **30** | 45 |
| Profit from operations before depreciation and impairment | **6,242** | 6,071 |
| Increase in working capital | **(375)** | (242) |
| Net capital expenditure | **(547)** | (742) |
| Gross capital expenditure | **(720)** | (798) |
| Sale of fixed assets | **173** | 56 |
| **Operating cash flow** | **5,320** | 5,087 |
| Net of pension funds' shortfall funding and one-off receipts | **(190)** | (164) |
| Net interest paid | **(443)** | (429) |
| Tax paid | **(1,440)** | (1,496) |
| Dividends paid to non-controlling interests | **(265)** | (259) |
| **Cash generated from operations** | **2,982** | 2,739 |
| Restructuring costs | **(310)** | (228) |
| Dividends and other appropriations from associates | **699** | 748 |
| **Free cash flow** | **3,371** | 3,259 |
| Dividends paid to shareholders | **(2,611)** | (2,538) |
| Share buy-back (including transaction costs) | **(1,509)** | (1,258) |
| Net investment activities | **(19)** | (43) |
| Net flow from share schemes and other | **(79)** | (57) |
| **Net cash outflow** | **(847)** | (637) |
| **External movements on net debt** | | |
| Exchange rate effects** | **(163)** | 89 |
| Change in accrued interest and other | **(32)** | 3 |
| Change in net debt | **(1,042)** | (545) |
| Opening net debt | **(8,473)** | (7,928) |
| **Closing net debt** | **(9,515)** | (8,473) |

* *Restatement: see page 17.*
** *Including movements in respect of debt related derivatives.*

Operating cash flow increased by £233 million, or 5%, to £5,320 million, reflecting the growth in underlying operating performance and lower net capital expenditure, partially offset by working capital movements. The higher cash outflows in respect of the net movement relating to pension funds, net interest paid, dividends paid to non-controlling interest and restructuring costs, together with lower dividends and other appropriations from associates (due to the Reynolds American share buy-back being £73 million lower at £189 million) were partially offset by lower tax paid. These led to the Group's free cash flow increasing by £112 million or 3% to £3,371 million.

The ratio of free cash flow per share to adjusted diluted earnings per share was 82% (2012 restated: 81%), with free cash flow per share increasing by 6% (2012: decreasing by 0.4%).

### Cash flow and net debt movements cont…

Below free cash flow, the principal cash outflows for 2013 comprise the payment of the prior year final dividend and the 2013 interim dividend, which was £73 million higher at £2,611 million, as well as a £1,509 million outflow due to the continuation of the on-market share buy-back programme in 2013, including transaction costs.

During 2013, the cash outflow from net investing activities of £19 million relates mainly to the further payment for the acquisition of CN Creative. In 2012, the cash outflow of £43 million mainly relates to the £14 million cash consideration paid on the purchase of CN Creative Limited and a cash outflow of £24 million for the acquisition of non-controlling interests in Bangladesh.

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

These flows resulted in a net cash outflow of £847 million (2012: £637 million outflow). After taking account of other changes, especially exchange rate movements, total net debt was £1,042 million higher at £9,515 million at 31 December 2013 (2012: £8,473 million).

### b) Net debt

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

| | **2013** | 2012 |
|---|---|---|
| | **£m** | £m |
| **Net debt due within one year:** | | |
| Borrowings | **1,980** | 1,636 |
| Related derivatives | **(55)** | (41) |
| Cash and cash equivalents | **(2,106)** | (2,081) |
| Current available-for-sale investments | **(54)** | (26) |
| | **(235)** | (512) |
| **Net debt due beyond one year:** | | |
| Borrowings | **9,716** | 9,083 |
| Related derivatives | **34** | (98) |
| | **9,750** | 8,985 |
| **Total net debt** | **9,515** | 8,473 |

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

### Cash flow and net debt movements cont…

#### c) IFRS cash generated from operations

The cash generated from operating activities in the IFRS cash flows on page 16 includes the following items:

| | **2013** | 2012 Restated* |
|---|---|---|
| | **£m** | £m |
| Profit from operations | **5,526** | 5,372 |
| Adjustments for: | | |
| Amortisation of trademarks and similar intangibles | **74** | 63 |
| Amortisation of other intangible assets | **48** | 53 |
| Gain on deemed partial disposal of a trademark | **(26)** | - |
| Depreciation and impairment of property, plant and equipment | **355** | 359 |
| Increase in inventories | **(386)** | (755) |
| Increase in trade and other receivables | **(246)** | (329) |
| Increase in trade and other payables | **311** | 840 |
| Decrease in net retirement benefit liabilities | **(222)** | (160) |
| Decrease in provisions for liabilities and charges | **(19)** | (45) |
| Other non-cash items | **(49)** | 39 |
| Cash generated from operations | **5,366** | 5,437 |

*See page 17

#### d) IFRS net cash and cash equivalents

The net cash and cash equivalents in the IFRS Group cash flow statement on page 16 comprise:

| | **2013** | 2012 |
|---|---|---|
| | **£m** | £m |
| Cash and cash equivalents per balance sheet | **2,106** | 2,081 |
| Accrued interest | **(1)** | - |
| Overdrafts | **(329)** | (242) |
| Net cash and cash equivalents | **1,776** | 1,839 |

#### e) Liquidity

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

The Group has a target average centrally managed debt maturity of at least 5 years with no more than 20% of centrally managed debt maturing in a single rolling year. As at 31 December 2013, the average centrally managed debt maturity was 7.2 years (2012: 7.2 years) and the highest proportion of centrally managed debt maturing in a single rolling year was 18.3% (2012: 19.3%).

The Group continues to have a £2 billion central banking facility with a final maturity date of December 2015. The facility is provided by 22 banks and was undrawn as at 31 December 2013 (31 December 2012: undrawn).

**Cash flow and net debt movements cont…**

It is Group policy that short-term sources of funds (including drawings under both the US$2 billion commercial paper programme and the £1 billion euro commercial paper programme) are backed by undrawn committed lines of credit and cash. At 31 December 2013, commercial paper of £521 million was outstanding (2012: no commercial paper was outstanding).

In the year ended 31 December 2013, the Group continued with transactions in the capital markets. In March 2013, the Group issued a US$300 million bond with a maturity of March 2016 and €650 million bond with a maturity of March 2025. In July 2013, the Group repaid a €519 million bond from the Group's cash balances. In September 2013, the Group issued a new £650 million bond with a maturity of 2026. In November 2013, a maturing US$300 million bond was repaid and in December 2013, a maturing £152 million bonds was repaid. These repayments were financed from Group cash balances.

In June 2012, the Group issued new US$2 billion bonds; US$500 million with a maturity of 2015, US$600 million with a maturity of 2017 and US$900 million with a maturity of 2022. In June 2012, the Group repaid a maturing €337 million bond and prepaid and cancelled a US$690 million syndicated facility due October 2012, a Mexican Peso 1,444 million borrowing due 2014 and a Mexican Peso 1,025 million borrowing due 2014. In July 2012 the Group also prepaid and cancelled a €450 million syndicated facility due October 2013. The repayments were financed from Group cash balances. In November 2012, the Group issued a new €750 million bond with a maturity of January 2023.

## EARNINGS PER SHARE

Adjusted diluted earnings per share rose by 6% to 216.6p (2012: 205.2p), principally as a result of the growth in profit from operations, the higher share of post-tax results of associates and joint ventures and the impact of the share buy-back programme. Basic earnings per share were up 5% to 205.4p (2012: 195.8p).

| | **2013** | 2012 |
|---|---|---|
| | | Restated |
| | **pence** | pence |
| Earnings per share | | |
| - basic | **205.4** | 195.8 |
| - diluted | **204.6** | 194.8 |
| Adjusted earnings per share | | |
| - basic | **217.4** | 206.3 |
| - diluted | **216.6** | 205.2 |
| Headline earnings per share | | |
| - basic | **201.1** | 195.2 |
| - diluted | **200.4** | 194.2 |

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 2/2013 'Headline Earnings', as issued by the South African Institute of Chartered Accountants. Circular 2/2013 superseded Circular 3/2012 for periods ending on or after 31 July 2013 and requires comparative figures to be restated, where appropriate. The comparative headline earnings per share for 2012 have been restated for the effects of the revised IAS 19 *Employee Benefits* as explained on page 17.

## Earnings per share cont…

**Adjusted diluted earnings per share** are calculated by taking the following adjustments into account:

| | 2013 | 2012 Restated |
|---|---|---|
| | pence | pence |
| Unadjusted diluted earnings per share | **204.6** | 194.8 |
| Effect of restructuring and integration costs | **11.0** | 8.3 |
| Gain on deemed partial disposal of a trademark | **(1.4)** | - |
| Effect of deferred tax credit | **-** | (0.6) |
| Effect of amortisation of trademarks and similar intangibles | **3.2** | 2.4 |
| Effect of associates' adjusting items | **(0.8)** | 0.3 |
| Adjusted diluted earnings per share | **216.6** | 205.2 |

As well as the adjusting items explained on pages 21 to 22, the above adjustments for 2012 also take into account a tax credit to the income statement, included in the taxation of ordinary activities. The merger of the Group's Colombian companies resulted in a reduction of £11 million against a deferred tax liability set up on the acquisition of Protabaco in 2011.

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

| | 2013 | 2012 Restated |
|---|---|---|
| | pence | pence |
| Diluted unadjusted earnings per share | **204.6** | 194.8 |
| Effect of impairment of intangibles and property, plant and equipment | **1.7** | 0.4 |
| Effect of gains on disposal of property, plant and equipment and held-for-sale assets | **(3.5)** | (0.8) |
| Effect of disposal of business and trademarks | **(1.4)** | - |
| Effect of gains reclassified from the available-for-sale reserve | **(0.1)** | - |
| Effect of share of associates' trademark and other asset impairments | **0.2** | 0.8 |
| Effect of issue of shares and change in shareholding in associate | **(1.1)** | (1.0) |
| Diluted headline earnings per share | **200.4** | 194.2 |

The earnings per share are based on:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Earnings | Shares | Earnings Restated | Shares |
| | £m | m | £m | m |
| Earnings per share | | | | |
| - basic | **3,904** | **1,901** | 3,797 | 1,939 |
| - diluted | **3,904** | **1,908** | 3,797 | 1,949 |
| Adjusted earnings per share | | | | |
| - basic | **4,133** | **1,901** | 4,000 | 1,939 |
| - diluted | **4,133** | **1,908** | 4,000 | 1,949 |
| Headline earnings per share | | | | |
| - basic | **3,823** | **1,901** | 3,784 | 1,939 |
| - diluted | **3,823** | **1,908** | 3,784 | 1,949 |

## DIVIDENDS

### Recommendation

The Board recommends a final dividend of 97.4 pence per ordinary share of 25p for the year ended 31 December 2013. If approved by shareholders at the Annual General Meeting to be held on 30 April 2014, the final dividend will be payable on 8 May 2014 to shareholders registered on either the UK main register or the South Africa branch register on 14 March 2014 (the record date).

### General Dividend Information

The following is a summary of the dividends declared/recommended for the years ended 31 December 2013 and 2012.

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Pence per share** | **£m** | Pence per share | £m |
| Ordinary shares | | | | |
| Interim | | | | |
| - 2013 paid 30 September 2013 | **45.0** | **846** | | |
| - 2012 paid 26 September 2012 | | | 42.2 | 815 |
| Final | | | | |
| - 2013 payable 8 May 2014 | **97.4** | **1,838** | | |
| - 2012 paid 8 May 2013 | | | 92.7 | 1,765 |
| | **142.4** | **2,684** | 134.9 | 2,580 |

### Key Dates and South Africa Branch Register

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

| **Event** | **Date 2014** |
|---|---|
| Last Day to Trade (LDT) cum dividend (JSE) | Friday 7 March |
| Shares commence trading ex dividend (JSE) | Monday 10 March |
| Shares commence trading ex dividend (LSE) | Wednesday 12 March |
| Record date (JSE and LSE) | Friday 14 March |
| Payment date | Thursday 8 May |
| | |
| No removal requests permitted between the UK main register and the South Africa branch register | Thursday 27 February to Friday 14 March (inclusive) |
| No transfers permitted between the UK main register and the South Africa branch register | Monday 10 March to Friday 14 March (inclusive) |
| No shares may be dematerialised or rematerialised | Monday 10 March to Friday 14 March (inclusive) |

As the Group reports in sterling, dividends are declared and payable in sterling except for shareholders on the branch register in South Africa whose dividends are payable in rand. A rate of exchange of £:R = 17.89670 as at 25 February 2014 (the closing rate on that date as quoted by Bloomberg), results in an equivalent final dividend of 1743.13858 SA cents per ordinary share.

**Dividends cont…**

**South Africa Branch Register: Dividends Tax Information**

South Africa Dividends Tax will be withheld from the gross final dividend of 261.47079 SA cents per ordinary share paid to shareholders on the South Africa branch register at the rate of 15 per cent unless a shareholder qualifies for an exemption. After Dividends Tax has been withheld, the net dividend will be 1481.66779 SA cents per ordinary share.

At the close of business on 25 February 2014 (the latest practicable date prior to the date of the recommendation of the final dividend), British American Tobacco p.l.c. (the "Company") had a total of 1,887,026,281 ordinary shares in issue (excluding treasury shares). The Company held 139,516,345 ordinary shares in treasury giving a total issued share capital of 2,026,542,626 ordinary shares.

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

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

For the avoidance of doubt, 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 (Pty) Ltd, contact details for which are given in the 'Corporate Information' section below.

## RETIREMENT BENEFIT SCHEMES

The Group's subsidiaries operate around 180 retirement benefit arrangements worldwide. The majority of the scheme members belong to defined benefit schemes, most of which are funded externally and many are closed to new entrants. The Group also operates a number of defined contribution schemes.

The total present value of funded scheme liabilities at 31 December 2013 was £5,921 million (2012: £6,217 million), while unfunded scheme liabilities amounted to £337 million (2012: £378 million). The scheme assets increased from £5,563 million in 2012 to £5,780 million in 2013.

After excluding unrecognised scheme surpluses of £19 million (2012: £15 million), the overall net liability for all pension schemes and healthcare schemes amounted to £497 million at the end of 2013, compared to £1,047 million at the end of 2012.

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

**Retirement Benefit Schemes cont…**

As explained on page 17, with effect from 1 January 2013 the Group adopted the revised IAS 19 *Employee Benefits* with the following impact on the results for the twelve months to 31 December 2012:

| | 2012 | | |
|---|---|---|---|
| | Previously reported | Restated | Change |
| | £m | £m | £m |
| **Income statement** | | | |
| - Profit from operations | 5,412 | 5,372 | (40) |
| - Adjusted profit from operations | 5,681 | 5,641 | (40) |
| - Share of post-tax results of associates and joint ventures | 692 | 676 | (16) |
| - Adjusted share of post-tax results of associates | 697 | 681 | (16) |
| - Profit before taxation | 5,648 | 5,592 | (56) |
| - Taxation on ordinary activities | (1,526) | (1,516) | 10 |
| - Profit for the year | 4,122 | 4,076 | (46) |
| **Other comprehensive income** | (689) | (643) | 46 |

## CHANGES IN THE GROUP

### (a) CTBAT International Limited

On 30 August 2013 the Group announced that CTBAT International Limited (CTBAT), a joint investment incorporated in Hong Kong between subsidiaries of China National Tobacco Corporation (CNTC) and the Group, had commenced official business operations. The joint venture was created in accordance with the Joint Venture Agreement signed by both companies. It owns and manages the worldwide international cigarette trademark State Express 555, and also owns the worldwide rights outside China to the leading CNTC brand Shuang Xi.

CTBAT is treated as a joint operation as defined under IFRS 11 *Joint Arrangements*, as it operates as an extension of the existing tobacco businesses of its investors and the Group therefore recognises its share (50%) of the assets, liabilities, income and expenses of the arrangement on a line by line basis in the consolidated financial statements. CTBAT is reported as part of the Asia Pacific Region with the majority of its international sales (non China domestic sales) made through existing BAT end markets in that region. All sales to mainland China are via CNTC.

In accordance with best practice, the contribution of brands and businesses into CTBAT have been recognised by the new entity at fair value, resulting in a gain on the deemed partial disposal of the State Express 555 brand which has been treated as an adjusting item and the recognition of the Group's share of the assets of the new business.

The impact of the arrangement on operating results for 2013 was not material.

**Changes in the Group cont…**

**(b) British American Tobacco Myanmar Limited**

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

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

**(c) CN Creative Limited**

On 18 December 2012, the Group acquired CN Creative Limited, a UK-based start-up company specialising in the development of e-cigarette technologies. The company's entire share capital was acquired for £40 million, of which £14 million was paid in 2012 and a further £16 million was paid in 2013. The remaining balance of the consideration payable is contingent upon the achievements of certain post-acquisition events. The only material asset acquired was the company's intellectual property.

**(d) British American Tobacco Bangladesh**

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

## SHARE BUY-BACK PROGRAMME

In 2013, the Board approved the continuation of the on-market share buy-back programme with a value of up to £1,500 million, excluding transaction costs. During the year ended 31 December 2013, 44 million shares were bought at a cost of £1,500 million, excluding transaction costs of £9 million. For the year ended 31 December 2012, 38.9 million shares were bought at a cost of £1,250 million excluding transaction costs of £8 million.

The Board has approved an on-market share buy-back programme for 2014 with a value of up to £1,500 million, excluding costs.

## RELATED PARTIES

The Group's related party transactions and relationships for 2012 were disclosed on page 174 of the Annual Report for the year ended 31 December 2012. In the year to 31 December 2013, there were no material changes in related parties or in related party transactions except for the decreased level of shares bought back by Reynolds American resulting in an amount of £189 million (2012: £262 million) being received by the Group.

## FOREIGN CURRENCIES

The principal exchange rates used were as follows:

| | Average | | Closing | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| US dollar | **1.564** | 1.586 | **1.656** | 1.626 |
| Canadian dollar | **1.612** | 1.584 | **1.760** | 1.619 |
| Euro | **1.178** | 1.234 | **1.202** | 1.233 |
| South African rand | **15.099** | 13.054 | **17.347** | 13.791 |
| Brazilian real | **3.381** | 3.109 | **3.908** | 3.328 |
| Australian dollar | **1.623** | 1.532 | **1.851** | 1.566 |
| Russian rouble | **49.853** | 49.277 | **54.424** | 49.656 |
| Japanese yen | **152.715** | 126.633 | **174.080** | 140.549 |
| Indian rupee | **91.707** | 84.838 | **102.447** | 89.061 |

## CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

The Group has contingent liabilities in respect of litigation, taxes and guarantees in various countries. The Group is subject to contingencies pursuant to requirements that it complies with relevant laws, regulations and standards.

Failure to comply could result in restrictions in operations, damages, fines, increased tax, increased cost of compliance, interest charges, reputational damage or other sanctions. These matters are inherently difficult to quantify. In cases where the Group has an obligation as a result of a past event existing at the balance sheet date, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated, a provision will be recognised based on best estimates and management judgment.

There are, however, contingent liabilities in respect of litigation, taxes in some countries and guarantees for which no provisions have been made.

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, amongst others, excise tax, value added taxes, sales taxes, corporate taxes, withholding taxes and payroll taxes. The estimated costs of known tax obligations have been provided in these accounts in accordance with the Group's accounting policies. In some countries, tax law requires that full or part payment of disputed tax assessments be made pending resolution of the dispute. To the extent that such payments exceed the estimated obligation, they would not be recognised as an expense. In some cases disputes are proceeding to litigation.

### Group litigation

Group companies, as well as other leading cigarette manufacturers, are defendants in a number of product liability cases. In a number of these cases, the amounts of compensatory and punitive damages sought are significant. Group companies are also involved in proceedings that are not related to tobacco products. These various proceedings could give rise to material liability.

While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Group believes that the defences of the Group's companies to all these various claims are meritorious on both the law and the facts, and a vigorous defence is being made everywhere. If an adverse judgment is entered against any of the Group's companies in any case, an appeal will be made. Such appeals could require the appellants to post appeal bonds or substitute security in amounts which could in some cases equal or exceed the amount of the judgment. In any event, with regard to US product liability litigation, the Group has the benefit of the indemnity from R. J. Reynolds Tobacco Company, a wholly-owned subsidiary of Reynolds American Inc. At least in the aggregate, and despite the quality of defences available to the Group, it is not impossible that the Group's results of operations or cash flows in a particular period could be materially affected by this and by the final outcome of any particular litigation.

Having regard to all these matters, with the exception of the Fox River matter, provided for in 2011, the Group (i) does not consider it appropriate to make any provision in respect of any pending litigation, save insofar as stated above and (ii) does not believe that the ultimate outcome of this litigation will significantly impair the Group's financial condition.

Full details of the litigation and more information on tax disputes, will be included in the Annual Report for the year ended 31 December 2013. There were no material developments during the year that would impact on the financial position of the Group.

## FRANKED INVESTMENT INCOME GROUP LITIGATION ORDER

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

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

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

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

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

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

## ANNUAL REPORT

### Statutory accounts

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2013 or 2012. Statutory accounts for 2012 have been delivered to the Registrar of Companies and those for 2013 will be delivered following the Company's Annual General Meeting. The auditors' reports on both the 2012 and 2013 accounts were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of Companies Act 2006 or equivalent preceding legislation.

**Annual report cont…**

**Publication**

The Annual Report will be published on bat.com on 24 March 2014. At that time, a printed copy will be mailed to shareholders on the UK main register who have elected to receive it. Otherwise, such shareholders will be notified that the Annual Report is available on the website and will, at the time of that notification, receive a Performance Summary (which sets out an overview of the Group's performance, headline facts and figures and key dates in the Company's financial calendar) together with a Proxy Form and Notice of Annual General Meeting. Specific local mailing and/or notification requirements will apply to shareholders on the South African branch register.

## DISCLAIMERS

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

This announcement contains certain forward looking statements 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.

## DISTRIBUTION OF PRELIMINARY STATEMENT

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

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

**Nicola Snook**
*Secretary*
*26 February 2014*

## OTHER TOBACCO PRODUCTS

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

The usage rates that are applied:

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

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

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

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

## GROUP VOLUME

The Group volume includes 100% of all volume sold by subsidiaries. In the case of the joint operation described on page 30, the volume of CTBAT not already recognised by Group subsidiaries will be included in Group volumes at 100% rather than as a proportion of volume sold, in line with the Group's measurement of market share, which is based on absolute volume sold, both in individual markets and globally.

## SHAREHOLDER INFORMATION

### FINANCIAL CALENDAR 2014

| | |
|---|---|
| Wednesday 30 April | Interim Management Statement |
| Wednesday 30 April | Annual General Meeting at 11.30am<br>The Banqueting House, Whitehall, London SW1A 2ER |
| Wednesday 30 July | Half-Yearly Report |
| Wednesday 22 October | Interim Management Statement |

### CALENDAR FOR THE FINAL DIVIDEND 2013

**2014**

| | |
|---|---|
| Thursday 27 February | Dividend announced: amount of dividend per share in both sterling and rand; applicable exchange rate and conversion date – Tuesday 25 February 2014; plus additional applicable information as required in respect of South Africa Dividends Tax[(1)]. |
| Thursday 27 February to Friday 14 March | From the commencement of trading on Thursday 27 February 2014 to Friday 14 March 2014 (inclusive), no removal requests in either direction between the UK main register and the South Africa branch register will be permitted. |
| Friday 7 March | Last Day to Trade or LDT (JSE) |
| Monday 10 March to Friday 14 March | From the commencement of trading on Monday 10 March 2014 to Friday 14 March 2014 (inclusive), no transfers between the UK main register and the South Africa branch register will be permitted; no shares may be dematerialised or rematerialised. |
| Monday 10 March | Ex-dividend date (JSE) |
| Wednesday 12 March | Ex-dividend date (LSE) |
| Friday 14 March | Record date (LSE and JSE) |
| Thursday 8 May | Payment date (sterling and rand) |

Note:

(1) Details of the applicable exchange rate and the South Africa Dividends Tax information can be found under the heading 'Dividends' on page 28.

For holders of American Depositary Receipts (ADRs), the record date for ADRs is also Friday 14 March 2014 with an ADR payment date of Tuesday 13 May 2014.

## CORPORATE INFORMATION

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

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

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

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

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

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

### British American Tobacco p.l.c.
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