BRITISH AMERICAN TOBACCO

news release
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26 February 2015

BRITISH AMERICAN TOBACCO p.l.c.
PRELIMINARY ANNOUNCEMENT – YEAR ENDED 31 DECEMBER 2014

STRONG PERFORMANCE IN A TOUGH ENVIRONMENT

KEY FINANCIALS	2014		2013	Change	
	Current rates	Constant rates		Current rates	Constant rates
Revenue	**£13,971m**	**£15,682m**	£15,260m	-8.4%	+2.8%
Adjusted profit from operations*	**£5,403m**	**£6,075m**	£5,820m	-7.2%	+4.4%
Profit from operations	**£4,546m**	**£5,135m**	£5,526m	-17.7%	-7.1%
Adjusted diluted earnings per share*	**208.1p**	**233.7p**	216.6p	-3.9%	+7.9%
Basic earnings per share	**167.1p**		205.4p	-18.6%	
Dividends per share	**148.1p**		142.4p	+4.0%	

*The non-GAAP measures, including adjusting items and constant currencies, are set out on page 18.

FULL YEAR HIGHLIGHTS

- Group revenue was up by 2.8% at constant rates of exchange. Reported revenue was 8.4% lower, as a result of adverse exchange rate movements.
- Adjusted Group profit from operations increased by 4.4% at constant rates of exchange and decreased by 7.2% at current rates of exchange.
- Profit from operations, at current rates of exchange, was 17.7% lower at £4,546 million, impacted by a non-tobacco litigation charge and adverse exchange movements on a translational and transactional level.
- Operating margin, at current rates of exchange, grew by more than 50 basis points to 38.7%.
- Adjusted diluted earnings per share, at constant translational rates of exchange, were up by 7.9%, driven mainly by the growth in adjusted profit from operations. At current rates, it was 3.9% lower at 208.1p.
- Basic earnings per share were 18.6% lower at 167.1p (2013: 205.4p).
- Group cigarette volume was 667 billion, a decline of 1.4% against an estimated industry decline of 2.5%. Total tobacco volume was 1.3% lower.
- Our Global Drive Brands had a very strong year growing volume by 5.8%, primarily driven by Dunhill, Rothmans and Pall Mall.
- The Group intends to invest US$4.7 billion to maintain a 42% shareholding in the enlarged Reynolds American Inc., after its proposed acquisition of Lorillard, which is contingent on regulatory approval.
- 23 million shares were bought back at a cost of £795 million, excluding transaction costs. Due to the intended investment in Reynolds American Inc., the share buy-back programme was suspended from 30 July 2014.
- On 23 February 2015, the Group announced that it is evaluating a possible public tender offer to acquire up to all of the 24.7% of Souza Cruz shares which it does not own.
- The Board has recommended a final dividend of 100.6p, taking the 2014 total dividend to 148.1p per share, an increase of 4%, in line with the intention to grow dividends in real terms.

Richard Burrows, Chairman, commenting on the year ended 31 December 2014

"The Group continued to perform extremely well despite challenging trading conditions. We grew revenue and profit at constant rates of exchange and we increased our market share. Although significant exchange rate movements in many of our key currencies impacted our reported results, the underlying performance of our business remains strong. The increase in our total dividend for 2014 to 148.1p reflects our commitment to growing shareholder returns as well as our confidence in the strength of our business, our strategy and our future."

CHIEF EXECUTIVE'S REVIEW

Our strategy is delivering

I am delighted with the excellent progress we have made in the four years since I became Chief Executive, during which we have enhanced our strategy with a sharpened focus on the consumer. We have increased our share of the global cigarette market in this period by 70 basis points and grown our Global Drive Brands (GDBs) and share of key segments at an even faster rate, improving the underlying quality of our portfolio. We are meeting consumer needs with differentiated products, including innovations which now make up nearly 50% of our GDB volume.

Our focus on resource allocation is driving major investments in high growth markets, particularly in EEMEA and Asia-Pacific regions, resulting in share growth in these markets. By supporting pricing with strong brands and innovations, substantially reducing costs and improving productivity, we have increased our operating margin by more than 520 basis points over four years. We are also making excellent progress towards our goal to lead across the various next-generation product categories.

This performance shows that we have the right strategy for our business – it has served us well in a changing and challenging market environment and it continued to deliver for our shareholders in 2014.

Another strong performance in 2014

Although currency movements significantly impacted our reported results for last year, at constant rates we continued to grow revenue (+2.8%), adjusted profit from operations (+4.4%) and adjusted diluted earnings per share (+7.9%). Excluding the transactional effect of foreign exchange, adjusted profit from operations would have increased by an estimated further £90 million, or 1.5%.

Exchange rates continue to be volatile and in the current year, if rates were to stay where they are today, we would face a substantially larger transactional exchange headwind. This would impact our constant currency performance and would be in addition to any translational impact on reported numbers.

In 2014, we again increased our market share in our key markets driven by our GDBs' excellent performance. As a result, our cigarette volume decline of 1.4% was less than the overall industry decline, estimated at 2.5%.

We maintained good pricing, despite an increase in competitive pricing activity in some key markets. We also achieved another good improvement in operating margin (over 50 basis points) – an excellent result given that we absorbed significant transactional costs caused by currency movements.

The Group continued to invest in growth opportunities in key markets and in building a pipeline of next-generation products. We developed our e-cigarette brand, Vype, in the UK with new product launches and made significant progress towards launching Voke, a medicinal nicotine product, which was granted a UK medicines licence last year. We plan to begin consumer trials of a tobacco heating product by the end of 2015 and have our first product in a test market in 2016.

We continue to deliver value to shareholders

Despite tough market conditions, the strengths of our business and our people ensured we achieved another competitive set of results and again delivered high single-figure earnings growth at constant exchange rates. We therefore propose to increase the final dividend for 2014 to 100.6p, bringing the total dividend for the year to 148.1p, 4.0% up on 2013.

The Group recently announced that it is evaluating a possible public tender offer to acquire the remaining 24.7% of Souza Cruz shares that it does not currently own. This investment would further strengthen our presence in Brazil, a key strategic market where we are already market leader. It would also provide opportunities to leverage Souza Cruz's capabilities in areas such as leaf and closer cooperation in research and development, while further integrating the business into our Americas region.

We expect the trading environment to remain difficult in 2015, and that foreign exchange headwinds will continue to have a significant impact on both a transactional and translational level. However, I am confident that with our proven strategy, strong global presence, powerful brands, talented people and continued focus on efficiency we will deliver value to our shareholders in the short and long term.

Nicandro Durante

25 February 2015

REGIONAL REVIEW

This review presents the underlying performance of the regions and markets, at constant rates of exchange. As explained on page 18, the Group does not adjust for normal transactional gains or losses in operations which are generated by exchange rate movements. The performance also excludes the significant adjusting items, explained on pages 21 and 22. The steep increase in adjusting items is mainly driven by the one-off charge in respect of the Flintkote non-tobacco litigation settlement.

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

	Adjusted profit from operations			**Cigarette volume**	
	2014		2013	**2014**	2013
	Constant rates	**Current rates**			
	£m	**£m**	£m	**Bns**	Bns
Asia-Pacific	**1,713**	**1,548**	1,693	**197**	197
Americas	**1,475**	**1,286**	1,364	**131**	134
Western Europe	**1,262**	**1,189**	1,273	**112**	119
EEMEA	**1,625**	**1,380**	1,490	**227**	226
Total	**6,075**	**5,403**	5,820	**667**	676
Total tobacco volume				**694**	703

The Group delivered a good performance in 2014, underpinned by increased market share and continued growth of the Global Drive Brands. However, exchange rate movements had an adverse impact on reported results.

Revenue in constant currency was 2.8% higher driven by a price mix of 4.2%, as strong pricing in a number of key markets was partly offset by continued adverse geographic mix and the growth of the lower priced segment in some markets. At current rates of exchange, revenue decreased by 8.4%, reflecting the adverse effects of currency movements.

Reported profit from operations was 17.7% lower at £4,546 million, reflecting the non-tobacco litigation charge and the impact of exchange rate movements. Adjusted profit from operations (see page 18) declined by 7.2%, but excluding the translational effect of exchange rate movements, adjusted profit from operations was higher by 4.4%. Excluding the transactional effect of foreign exchange on the cost of items such as leaf, filter tow and wrapping materials, adjusted operating profit would have increased by an estimated further £90 million, or 1.5%.

Group cigarette volume from subsidiaries was 667 billion, a decrease against the previous year of 1.4%. Total tobacco volume was lower by 1.3%. Industry decline drove lower volume in Russia, Vietnam, Brazil, Denmark and Poland partially offset by higher volume in Bangladesh, Iran, Venezuela, Turkey, Ukraine and Pakistan. The Group increased market share by 10 basis points in its key markets.

The five Global Drive Brands increased volume by 5.8%, with strong share growth of 90 basis points. Dunhill volume increased by 2.9%, driven mainly by Indonesia and Brazil, offsetting lower volume in Malaysia, South Korea and the GCC. Kent volume was 2.8% down as a result of market contraction in Russia and Romania, which offset strong performances in Iran, Uzbekistan, Japan and Turkey.

Lucky Strike volume was up by 0.8%, driven by growth in Mexico and Spain offsetting lower volume in Chile and Poland. Pall Mall grew by 5.6% due to strong performances in Pakistan, South Africa, Mexico and Chile, more than offsetting lower volume in Italy, Russia and the UK. Rothmans' strong growth of 39.8% was driven by Russia, Italy, Ukraine, the UK, Kazakhstan, Australia and South Africa.

Other international brands declined by 3.0%, as growth in State Express 555 and Shuang Xi were more than offset by lower volume in Craven A, Peter Stuyvesant and Viceroy, driven by market decline.

Innovations account for nearly 50% of our GDB volume, and in 2014 their continued growth was driven by the roll-out of tube filters (Kent), strong growth of demi slims (Rothmans) and growth in the additive-free portfolio (Lucky Strike and Pall Mall). Capsules continued to grow driven by Dunhill, Kent and Pall Mall and the Group remains market leader in this segment.

Other tobacco products volume increased slightly to 27 billion sticks driven by Fine Cut in Western Europe, which was up by 1.7%. Pall Mall remains the number one Fine Cut brand in Western Europe.

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

Asia-Pacific: adjusted profit at constant rates of exchange increased by £20 million or 1.2%.

Adjusted profit, at current rates of exchange, was down by £145 million at £1,548 million due to a combination of adverse foreign exchange rates and a challenging pricing environment in Australia, partly offset by strong profit performances in Bangladesh, Pakistan and South Korea. At constant rates of exchange, adjusted profit increased by £20 million or 1.2%. Volume was in line with 2013 at 197 billion, as increases in Bangladesh, Pakistan and Indonesia offset declines in Vietnam, Australia and South Korea.

Country	Performance at constant rates of exchange
Australia	Volume was impacted by market contraction and higher illicit trade. A challenging pricing environment led to lower profit. Share was lower due to down-trading.
Malaysia	Profit was higher, driven by strong pricing more than offsetting lower volume caused by industry contraction. Share was lower due to down-trading.
Japan	Excellent growth in the Group's market share was driven by a strong performance by Kent, supported by innovations. Profit was down mainly due to negative mix.
New Zealand	Volume and share fell due to pricing activity related to excise absorption, leading to lower profit.
Bangladesh	Profit continued to increase strongly, driven by higher volume and significant share growth.
Pakistan	Pall Mall grew volume and share, further strengthening the Group's leadership position. Total volume growth and pricing underpinned a strong profit performance.
Vietnam	State Express 555 and Kent continued to grow share, but total share decreased due to share reductions in lower price segments. Profit declined reflecting lower volume, which was driven by significant growth in illicit trade and market contraction, caused by an excise-driven price increase and economic slowdown.
South Korea	Although volume declined, Dunhill maintained its share of the market. Profit increased as cost savings more than offset the impact of lower volume.
Taiwan	Pall Mall and Lucky Strike drove share to record levels. Higher volume and pricing were offset by marketing investment leading to a decline in profit.
Indonesia	Performance continued to reflect the focus on investment. Profitability improved driven by mix, as Dunhill volume increased significantly, more than offsetting declines in the Group's local brands.
The Philippines	Volume and market share were higher due to the launch of Pall Mall during the year, which further developed the portfolio following the Group's market entry in 2013.

Americas: adjusted profit at constant rates of exchange increased by £111 million or 8.1%

Adjusted profit, at current rates of exchange, declined by £78 million to £1,286 million, mainly due to exchange rate movements in Brazil, Canada and Venezuela. At constant rates, adjusted profit rose by £111 million or 8.1% driven by good performances from Brazil, Canada, Mexico, Venezuela and Chile. Volume was lower by 2.3% at 131 billion, mainly as a result of market contractions in Brazil, Canada, Chile and Argentina, partially offset by higher volume in Venezuela and Mexico.

Country	Performance at constant rates of exchange
Brazil	Market share grew to a record high, with Dunhill performing particularly well in the premium sector. Total market contraction led to an overall volume decline. Good profit growth was driven by higher pricing and cost savings.
Canada	Increases in federal and provincial excise led to lower volume. This was more than offset by higher pricing that led to increased profit.
Chile	Profit was up strongly, driven by pricing partly offset by lower volume. While Pall Mall continued to perform well, Group volume was lower due to an overall market decline and an increase in illicit trade.
Venezuela	Volume was higher, due to an excellent performance by Viceroy. Profit increased driven by volume and pricing, more than offsetting significant local inflation.
Mexico	Share and volume increased, driven by the successful roll-out of Lucky Strike additive-free and the continued growth of Pall Mall capsules. Profit was significantly higher, driven by increased volume and pricing.
Colombia	Good market share growth was driven by Kool, although industry decline led to slightly lower volume. Profit declined due to increased marketing investment.
Argentina	Pricing more than offset the impact of lower volume and led to an improvement in profitability. Lucky Strike continued to deliver good share growth in the premium segment.

Western Europe: adjusted profit at constant rates of exchange decreased by £11 million or 0.9%

Adjusted profit, at current rates of exchange, declined by £84 million to £1,189 million. At constant rates the decrease would have been £11 million or 0.9%, reflecting continued difficult trading conditions. Increased profit in Germany, Hungary and Belgium was offset by reductions in Denmark, Italy and France. Cigarette volume was 5.9% lower at 112 billion as lower volume in Denmark, Poland, Romania, Hungary and Germany was partly offset by growth in Spain and the UK. Fine Cut volume of 21 billion sticks equivalent was up 1.7% as a result of increases in Hungary, Belgium, Luxembourg and Germany.

Country	Performance at constant rates of exchange
Germany	Higher pricing more than offset the impact of lower cigarette volume, resulting in an increase in profit for the year. Fine Cut volume continued to grow due to the performance of Pall Mall.
Switzerland	Volume and profit were lower, driven by market contraction. However, Pall Mall's share of market increased.

Country	Performance at constant rates of exchange
Italy	Although market share fell for the full year, share grew in the final quarter of the year as Rothmans continued to perform well. Volume was flat, but profit was lower following the industry absorption of a 2013 VAT increase.
Romania	Market leadership was maintained although market contraction and down-trading led to a reduction in volume and lower profit.
France	Total volume was down, driven by market contraction. Market share was higher as Lucky Strike showed good growth. Profit was lower as the industry absorbed an increase in excise.
Denmark	Total volume was lower due to trade de-stocking following a 2013 excise stock build. Market share was lower driven by competitive pricing activity at the low end of the market. These factors led to a significant reduction in profit.
The Netherlands	Volume was higher as Lucky Strike and Pall Mall performed well. Profit was flat partly due to down-trading.
Belgium	Profit was higher due to pricing and increased volume. Share was up driven by Lucky Strike. Fine Cut volume and share also increased.
United Kingdom	Volume and share were higher due to the growth of Rothmans. Profit reduced as investment in the market increased.
Spain	Volume was higher as Lucky Strike and Pall Mall continued to grow. Profit was stable as increased marketing investment offset the benefit of higher volume.
Poland	The roll-out of a new distribution model drove higher share, especially in Pall Mall, and improved profitability. Total volume was down due to market contraction.

Eastern Europe, Middle East and Africa: adjusted profit at constant rates of exchange increased by £135 million or 9.1%

Adjusted profit, at current rates of exchange, decreased by £110 million to £1,380 million. A strong performance in the Middle East and good pricing across the region were offset by competitive pricing activity in a number of markets, including South Africa, and significant adverse exchange rate movements, notably in Russia, South Africa, Nigeria and Ukraine. At constant rates of exchange, profit would have increased by £135 million or 9.1%. Volume (at 227 billion) was slightly ahead of 2013, with growth in Iran, Turkey and Ukraine more than offsetting the effect of industry volume contraction in Russia.

Country	Performance at constant rates of exchange
Russia	Share continued to increase driven by the strong growth of Rothmans and Lucky Strike. Profit was higher, driven by strong pricing and cost savings. This more than offset lower volume caused by market contraction.
South Africa	Share fell in the second half of the year, driven by competitor pricing activity in the low-price segment. Profit was lower as economic weakness and down-trading were not fully offset by pricing and significant cost reduction programmes.
The GCC	Profit continued to increase as pricing, supported by strong growth in John Player Gold Leaf, more than offset lower Dunhill volume. Total market share declined.
Nigeria	Profit was up driven by cost savings and higher Benson & Hedges volume, although total volume was lower.
Iran	A very strong performance by Kent led to significantly higher volume and an increase in profit.

Country	Performance at constant rates of exchange
Ukraine	Higher volume driven by Rothmans underpinned excellent growth in share. Profit was up driven by robust pricing and increased volume.
Turkey	Volume growth and stable share were driven by excellent performances by Kent and Viceroy. Significant price competition in the market led to lower profit.
Egypt	A good performance by Viceroy was more than offset by lower Rothmans volume, while excise changes led to down-trading, which adversely affected profit.

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

REGIONAL INFORMATION

For the year ended 31 December	Asia-Pacific	Americas	Western Europe	EEMEA	Total
SUBSIDIARIES					
Volume (cigarette billions)					
2014	**197**	**131**	**112**	**227**	**667**
2013	197	134	119	226	676
Change*	0.1%	-2.3%	-5.9%	0.3%	-1.4%
Revenue (£m)					
2014 (at constant)	**4,253**	**3,506**	**3,546**	**4,377**	**15,682**
2014 (at current)	**3,873**	**2,990**	**3,359**	**3,749**	**13,971**
2013	4,203	3,317	3,635	4,105	15,260
Change (at constant)	+1.2%	+5.7%	-2.4%	+6.6%	+2.8%
Change (at current)	-7.9%	-9.9%	-7.6%	-8.7%	-8.4%
Adjusted profit from operations (£m)					
2014 (at constant)	**1,713**	**1,475**	**1,262**	**1,625**	**6,075**
2014 (at current)	**1,548**	**1,286**	**1,189**	**1,380**	**5,403**
2013	1,693	1,364	1,273	1,490	5,820
Change (at constant)	+1.2%	+8.1%	-0.9%	+9.1%	+4.4%
Change (at current)	-8.6%	-5.7%	-6.6%	-7.4%	-7.2%
Operating margin based on adjusted profit (%)					
2014 (at current)	**40.0%**	**43.0%**	**35.4%**	**36.8%**	**38.7%**
2013	40.3%	41.1%	35.0%	36.3%	38.1%

*Based on absolute volume.

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)					
2014 (at current)	**291**	**424**	**-**	**4**	**719**
2013	294	439	-	6	739
Change	-1.0%	-3.4%	-	-33.3%	-2.7%
Share of adjusted post-tax results of associates and joint ventures (£m)					
2014 (at constant)	**304**	**453**	**-**	**5**	**762**
2014 (at current)	**277**	**431**	**-**	**4**	**712**
2013	272	445	-	6	723
Change (at constant)	+11.8%	+1.8%	-	-16.7%	+5.4%
Change (at current)	+1.8%	-3.1%	-	-33.3%	-1.5%

GROUP

For the year ended 31 December	Total
Underlying tax rate of subsidiaries (%)	
2014	**30.6%**
2013	30.7%
Adjusted diluted earnings per share (pence)	
2014 (at constant)	**233.7**
2014 (at current)	**208.1**
2013	216.6
Change (at constant)	+7.9%
Change (at current)	-3.9%
Return on capital employed (%)	
2014	**30%**
2013	31%

FINANCIAL INFORMATION AND OTHER

NET FINANCE COSTS

Net finance costs at £417 million were £49 million lower than last year, principally reflecting lower interest paid as a result of lower borrowing costs, increased net fair value gains in the Group and the impact of exchange rate movements.

Net finance costs comprise:

	2014	2013
	£m	£m
Finance costs	**(484)**	(532)
Finance income	**67**	66
	(417)	(466)
Comprising:		
Interest payable	**(588)**	(614)
Interest and dividend income	**67**	64
Net impact of fair value and exchange	**104**	84
- fair value changes - derivatives	**154**	103
- exchange differences	**(50)**	(19)
	(417)	(466)

RESULTS OF ASSOCIATES

The Group's share of post-tax results of associates decreased by £20 million, or 2.7%, to £719 million. The Group's share of the adjusted post-tax results of associates decreased by 1.5% to £712 million, with a rise of 5.4% to £762 million at constant rates of exchange.

The adjusted contribution from Reynolds American Inc. decreased by 3.1% to £427 million. At constant rates of exchange this would have been an increase of 2.0%. The Group's adjusted contribution from its main associate in India, ITC, was £270 million, up 2.1%. At constant rates of exchange, the contribution would have been 11.9% higher than last year.

See page 22 for the adjusting items.

TAXATION

	2014	2013
	£m	£m
UK		
- current year tax	**-**	-
Overseas		
- current year tax expense	**1,439**	1,581
- adjustment in respect of prior periods	**11**	(14)
Current tax	**1,450**	1,567
Deferred tax	**5**	33
	1,455	1,600

The tax rates in the income statement of 30.0% in 2014 and 27.6% in 2013 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 on page 28 was 30.6% in 2014 and 30.7% in 2013. The slight decrease 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

In the alternative cash flow presented on page 24, the operating cash flow decreased by £412 million, or 7.7%, to £4,908 million, reflecting the growth in underlying operating performance at constant currency being more than offset by adverse exchange rate movements. Lower payments relating to pension funds, net interest paid, dividends to non-controlling interests and taxation offset the fall in appropriations from associates following the completion of the Reynolds American Inc. share buy-back (£94 million in 2014 and £189 million in 2013). These, combined with the increase in restructuring costs and payments for Flintkote and Fox River, led to the Group's free cash flow decreasing by £864 million or 26% to £2,507 million.

The conversion of adjusted operating profit to operating cash flow remained strong at 91% (2013: 91%). However, due to payments in relation to Flintkote (£374 million) and Fox River (£63 million), the ratio of free cash flow per share to adjusted diluted earnings per share fell to 64% (2013: 82%). Excluding the Flintkote and Fox River payments in 2014 this was 76%.

Closing net debt at £10,165 million was up £650 million from £9,515 million as at 31 December 2013.

The Group's alternative cash flow statement is shown on page 24 and explained on page 19 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 with regard to illicit trade, excise, tax and financial risk and regulation.

The Board has, however increased its focus on the risks associated with the deployment of the Group's revised operating model and single IT operating system. The challenges to deliver the Group's pricing strategy in an increasingly aggressive competitor environment, the increased impact of market contraction, consumer down-trading, and the risks of strategic litigation, were also considered by the Board. These are now listed as principal risks facing the business.

The risk that the Group is unable to access cash resources in a number of markets is no longer considered a principal risk for the purpose of this year's report. The Board also revised its view of the primary causes of the risk of failure to lead developing next-generation products (referred to as the non-tobacco nicotine market in previous reports).

Full details of all principal Group risks will be included in the Annual Report for the year ended 31 December 2014.

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 2014 Annual Report.

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

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

2014

John Daly retired as an Executive Director on 6 April 2014. Anthony Ruys stood down as a Non-Executive Director of the Company at the conclusion of the Annual General Meeting on 30 April 2014.

2015

Three Non-Executive Directors joined the Board on 2 February 2015. Sue Farr (appointed to the Corporate Social Responsibility (CSR) and Nominations Committees), Pedro Malan (appointed to the CSR and Nominations Committees) and Dimitri Panayotopoulos (appointed to the Remuneration and Nominations Committees) bring significant consumer goods marketing experience and business and geopolitical skills to our Board and strengthen the Board's diverse composition.

INVESTMENT IN REYNOLDS AMERICAN INC.

On 15 July 2014, the Group announced that it has agreed to invest US$4.7 billion as part of Reynolds American Inc.'s proposed acquisition of Lorillard enabling the Group to maintain its 42% equity position in the enlarged business. The investment is contingent upon the completion of Reynolds American Inc's acquisition of Lorillard. The shareholders of all parties approved the transaction at the shareholders' meetings in January 2015. The acquisition is scheduled to be completed in the first half of 2015 subject to required regulatory approvals in the US. The Group will be subscribing for new shares in Reynolds American Inc. with funding from existing resources and debt. The Group signed a one-year bridge facility of US$4.7 billion in September 2014, with an extension option of up to one year.

In addition, the Group and Reynolds American Inc. have agreed in principle to collaborate on next-generation products and negotiations to reach final agreements are ongoing.

POST BALANCE SHEET DATE ANNOUNCEMENT

On 23 February 2015, the Group announced that it is evaluating a possible public tender offer to acquire up to all of the 24.7% of Souza Cruz shares which are not currently owned by British American Tobacco and to delist the company.

An offer for Souza Cruz's shares would be at a price per share of R$26.75, to be paid in cash, in Brazilian Reais, and to be reduced by any dividend paid by Souza Cruz. A price of R$26.75 per share would represent a premium of 30.0% to Souza Cruz's volume weighted average closing price over the three months to Friday 20 February 2015.

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 2014. 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 25 February 2015 and is signed on its behalf by:

Richard Burrows	Ben Stevens
Chairman	Finance Director

25 February 2015

ENQUIRIES:

INVESTOR RELATIONS:		**PRESS OFFICE:**	
Mike Nightingale	020 7845 1180	Will Hill	020 7845 1222
Rachael Brierley	020 7845 1519	Anna Vickerstaff	020 7845 2469

Webcast and Conference Call
A live webcast of the results is available via www.bat.com/ir.
If you wish to listen to the presentation via a conference call facility please use the dial in details below:
Dial-in number: +44 20 3139 4830
Passcode: 10208659#

Conference Call Playback Facility
A replay of the conference call will also be available from 1pm for 48 hours.
Dial-in number: +44 20 3426 2807
Passcode: 654452#

GROUP INCOME STATEMENT

For the year ended 31 December

	2014 £m	2013 £m
Gross turnover (including duty, excise and other taxes of £28,535 million (2013: £30,925 million))	**42,506**	46,185
Revenue	**13,971**	15,260
Raw materials and consumables used	**(3,088)**	(3,348)
Changes in inventories of finished goods and work in progress	**58**	105
Employee benefit costs	**(2,194)**	(2,384)
Depreciation, amortisation and impairment costs	**(523)**	(477)
Other operating income	**178**	302
Other operating expenses	**(3,856)**	(3,932)
Profit from operations	**4,546**	5,526
Analysed as:		
– adjusted profit from operations	**5,403**	5,820
– restructuring and integration costs	**(452)**	(246)
– amortisation of trademarks and similar intangibles	**(58)**	(74)
– gain on deemed partial disposal of a trademark	**-**	26
– Fox River	**27**	-
– Flintkote	**(374)**	-
	4,546	5,526
Net finance costs	**(417)**	(466)
Finance income	**67**	66
Finance costs	**(484)**	(532)
Share of post-tax results of associates and joint ventures	**719**	739
Analysed as:		
– adjusted share of post-tax results of associates and joint ventures	**712**	723
– issue of shares and change in shareholding	**14**	22
– restructuring and integration costs	**4**	(4)
– MSA receipts	**5**	33
– other (see page 22)	**(16)**	(35)
	719	739
Profit before taxation	**4,848**	5,799
Taxation on ordinary activities	**(1,455)**	(1,600)
Profit for the year	**3,393**	4,199
Attributable to:		
Owners of the parent	**3,115**	3,904
Non-controlling interests	**278**	295
	3,393	4,199
Earnings per share		
Basic	**167.1p**	205.4p
Diluted	**166.6p**	204.6p
Adjusted diluted	**208.1p**	216.6p

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

The accompanying notes on pages 8 and 18 to 34 form an integral part of this condensed consolidated financial information.

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	2014 £m	2013 £m
Profit for the year (page 12)	**3,393**	4,199
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:	**(327)**	(1,025)
Differences on exchange		
– subsidiaries	**(539)**	(972)
– associates	**113**	(141)
Cash flow hedges		
– net fair value gains	**57**	94
– reclassified and reported in profit for the year	**(67)**	(49)
– reclassified and reported in net assets	**8**	(1)
Available-for-sale investments of associates		
– net fair value gains/(losses)	**15**	(7)
Net investment hedges		
– net fair value gains	**2**	89
– differences on exchange on borrowings	**60**	(25)
Tax on items that may be reclassified	**24**	(13)
Items that will not be reclassified subsequently to profit or loss:	**(458)**	355
Retirement benefit schemes		
– net actuarial (losses)/gains in respect of subsidiaries	**(428)**	308
– surplus recognition and minimum funding obligations in respect of subsidiaries	**7**	(5)
– actuarial (losses)/gains in respect of associates net of tax	**(124)**	90
Tax on items that will not be reclassified	**87**	(38)
Total other comprehensive income for the year, net of tax	**(785)**	(670)
Total comprehensive income for the year, net of tax	**2,608**	3,529
Attributable to:		
Owners of the parent	**2,349**	3,272
Non-controlling interests	**259**	257
	2,608	3,529

The accompanying notes on pages 8 and 18 to 34 form an integral part of this condensed consolidated financial information. For net actuarial losses in respect of subsidiaries, see page 30.

GROUP STATEMENT OF CHANGES IN EQUITY

At 31 December

2014

	Attributable to owners of the parent						
	Share capital £m	**Share premium, capital redemption and merger reserves £m**	**Other reserves £m**	**Retained earnings £m**	**Total attributable to owners of parent £m**	**Non-controlling interests £m**	**Total equity £m**
Balance at 1 January 2014	**507**	**3,919**	**(190)**	**2,398**	**6,634**	**301**	**6,935**
Total comprehensive income for the year (page 13)	-	-	**(308)**	**2,657**	**2,349**	**259**	**2,608**
Profit for the year	-	-	-	**3,115**	**3,115**	**278**	**3,393**
Other comprehensive income for the year	-	-	**(308)**	**(458)**	**(766)**	**(19)**	**(785)**
Employee share options							
– value of employee services	-	-	-	**66**	**66**	-	**66**
– proceeds from shares issued	-	**4**	-	**1**	**5**	-	**5**
Dividends and other appropriations							
– ordinary shares	-	-	-	**(2,712)**	**(2,712)**	-	**(2,712)**
– to non-controlling interests	-	-	-	-	-	**(260)**	**(260)**
Purchase of own shares							
– held in employee share ownership trusts	-	-	-	**(49)**	**(49)**	-	**(49)**
– share buy-back programme	-	-	-	**(800)**	**(800)**	-	**(800)**
Non-controlling interests – acquisitions	-	-	-	**(4)**	**(4)**	-	**(4)**
Non-controlling interests – capital injection	-	-	-	-	-	**4**	**4**
Other movements	-	-	-	**21**	**21**	-	**21**
Balance at 31 December 2014	**507**	**3,923**	**(498)**	**1,578**	**5,510**	**304**	**5,814**

2013

	Attributable to owners of the parent						
	Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2013	507	3,916	796	2,253	7,472	307	7,779
Total comprehensive income for the year (page 13)	-	-	(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

The accompanying notes on pages 8 and 18 to 34 form an integral part of this condensed consolidated financial information.

GROUP BALANCE SHEET

At 31 December

	2014 £m	2013 £m
Assets		
Non-current assets		
Intangible assets	**10,804**	11,205
Property, plant and equipment	**3,004**	3,156
Investments in associates and joint ventures	**2,400**	2,299
Retirement benefit assets	**40**	135
Deferred tax assets	**311**	248
Trade and other receivables	**153**	171
Available-for-sale investments	**36**	36
Derivative financial instruments	**287**	113
Total non-current assets	**17,035**	17,363
Current assets		
Inventories	**4,133**	4,042
Income tax receivable	**57**	95
Trade and other receivables	**2,768**	2,876
Available-for-sale investments	**50**	54
Derivative financial instruments	**274**	312
Cash and cash equivalents	**1,818**	2,106
	9,100	9,485
Assets classified as held-for-sale	**32**	33
Total current assets	**9,132**	9,518
Total assets	**26,167**	26,881

The accompanying notes on pages 8 and 18 to 34 form an integral part of this condensed consolidated financial information.

GROUP BALANCE SHEET - continued

At 31 December

	2014 £m	2013 £m
Equity		
Capital and reserves		
Share capital	**507**	507
Share premium, capital redemption and merger reserves	**3,923**	3,919
Other reserves	**(498)**	(190)
Retained earnings	**1,578**	2,398
Owners of the parent	**5,510**	6,634
after deducting		
– cost of treasury shares	**(5,073)**	(4,325)
Non-controlling interests	**304**	301
Total equity	**5,814**	6,935
Liabilities		
Non-current liabilities		
Borrowings	**9,779**	9,716
Retirement benefit liabilities	**781**	632
Deferred tax liabilities	**495**	514
Other provisions for liabilities and charges	**278**	387
Trade and other payables	**128**	131
Derivative financial instruments	**123**	130
Total non-current liabilities	**11,584**	11,510
Current liabilities		
Borrowings	**2,479**	1,980
Income tax payable	**430**	487
Other provisions for liabilities and charges	**210**	194
Trade and other payables	**5,524**	5,741
Derivative financial instruments	**126**	34
Total current liabilities	**8,769**	8,436
Total equity and liabilities	**26,167**	26,881

The accompanying notes on pages 8 and 18 to 34 form an integral part of this condensed consolidated financial information.

GROUP CASH FLOW STATEMENT

For the year ended 31 December

	2014 £m	2013 £m
Cash flows from operating activities		
Cash generated from operations (page 26)	**4,634**	5,366
Dividends received from associates	**515**	510
Tax paid	**(1,433)**	(1,440)
Net cash generated from operating activities	**3,716**	4,436
Cash flows from investing activities		
Interest received	**61**	70
Dividends received from investments	**2**	2
Purchases of property, plant and equipment	**(529)**	(574)
Proceeds on disposal of property, plant and equipment	**62**	173
Purchases of intangibles	**(163)**	(147)
Purchases of investments	**(31)**	(47)
Proceeds on disposals of investments	**34**	15
Proceeds from associate's share buy-back	**94**	189
Purchase of subsidiaries	**-**	(16)
Net cash used in investing activities	**(470)**	(335)
Cash flows from financing activities		
Interest paid	**(571)**	(570)
Interest element of finance lease rental payments	**-**	(1)
Capital element of finance lease rental payments	**(2)**	(2)
Proceeds from issue of shares to owners of the parent	**4**	3
Proceeds from the exercise of options over own shares held in employee share ownership trusts	**1**	1
Proceeds from increases in and new borrowings	**1,967**	2,428
Movements relating to derivative financial instruments	**244**	54
Purchases of own shares	**(800)**	(1,509)
Purchases of own shares held in employee share ownership trusts	**(49)**	(74)
Reductions in and repayments of borrowings	**(1,300)**	(1,421)
Dividends paid to owners of the parent	**(2,712)**	(2,611)
Purchases of non-controlling interests	**(4)**	-
Non-controlling interests – capital injection	**4**	-
Dividends paid to non-controlling interests	**(249)**	(265)
Net cash used in financing activities	**(3,467)**	(3,967)
Net cash flows (used in)/generated from operating, investing and financing activities	**(221)**	134
Differences on exchange	**(63)**	(197)
Decrease in net cash and cash equivalents in the year	**(284)**	(63)
Net cash and cash equivalents at 1 January	**1,776**	1,839
Net cash and cash equivalents at 31 December	**1,492**	1,776

The accompanying notes on pages 8 and 18 to 34 form an integral part of this condensed consolidated financial information.

The net cash outflows relating to adjusting items (see pages 21 and 22) included in the above are £750 million (2013: £175 million).

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 2014. 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 2013.

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

NON-GAAP MEASURES

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

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

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

The Management Board, as the chief operating decision maker, reviews current and prior year segmental adjusted profit from operations of subsidiaries and joint operations, and adjusted post tax results of associates and joint ventures, at constant rates of exchange. This allows comparison of the current year results of the Group's overseas entities, including intercompany royalties payable in foreign currency to UK entities, had they been translated at the previous year's rates of exchange. Other than in exceptional circumstances, which will be fully disclosed, the Group does not adjust for the normal transactional gains and losses in operations that are generated by exchange movements. As an additional measure to indicate the impact of the exchange rate movements on the Group results, the principal measure of adjusted diluted earnings per share is also shown at constant rates of exchange. See page 20.

Non GAAP measures cont…

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 24 and 25. The Group publishes gross turnover as an additional disclosure to indicate the impact of duty, excise and other taxes.

Due to the secondary listing of the ordinary shares of British American Tobacco p.l.c. on the 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 28.

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

REVENUE

	2014			2013
	Reported revenue £m	**Impact of exchange £m**	**Revenue at CC(1) £m**	Reported revenue £m
Asia-Pacific	**3,873**	**380**	**4,253**	4,203
Americas	**2,990**	**516**	**3,506**	3,317
Western Europe	**3,359**	**187**	**3,546**	3,635
EEMEA	**3,749**	**628**	**4,377**	4,105
Total	**13,971**	**1,711**	**15,682**	15,260

PROFIT FROM OPERATIONS / DILUTED EARNINGS PER SHARE

	2014					2013		
	Reported Profit[2] £m	**Adjusting items £m**	**Adjusted Profit[2] £m**	**Impact of exchange £m**	**Adjusted Profit[2] at CC[1] £m**	Reported Profit[2] £m	Adjusting items £m	Adjusted Profit[2] £m
Asia-Pacific	**1,360**	**188**	**1,548**	**165**	**1,713**	1,672	21	1,693
Americas	**1,197**	**89**	**1,286**	**189**	**1,475**	1,303	61	1,364
Western Europe	**1,018**	**171**	**1,189**	**73**	**1,262**	1,133	140	1,273
EEMEA	**1,318**	**62**	**1,380**	**245**	**1,625**	1,418	72	1,490
Total Region	**4,893**	**510**	**5,403**	**672**	**6,075**	5,526	294	5,820
Non-tobacco litigation:								
Fox River	**27**	**(27)**	**-**	**-**	**-**	-	-	-
Flintkote	**(374)**	**374**	**-**	**-**	**-**	-	-	-
Profit from Operations	**4,546**	**857**	**5,403**	**672**	**6,075**	5,526	294	5,820
Net Finance costs	**(417)**	**-**	**(417)**	**(39)**	**(456)**	(466)	-	(466)
Associates and joint ventures	**719**	**(7)**	**712**	**50**	**762**	739	(16)	723
Profit before tax	**4,848**	**850**	**5,698**	**683**	**6,381**	5,799	278	6,077
Taxation	**(1,455)**	**(69)**	**(1,524)**	**(174)**	**(1,698)**	(1,600)	(46)	(1,646)
Non-controlling interest	**(278)**	**(5)**	**(283)**	**(29)**	**(312)**	(295)	(3)	(298)
Profit attributable to shareholders	**3,115**	**776**	**3,891**	**480**	**4,371**	3,904	229	4,133
Diluted number of shares (m)	**1,870**		**1,870**		**1,870**	1,908		1,908
Diluted earnings per share (pence)	**166.6**		**208.1**		**233.7**	204.6		216.6

Notes:

(1) CC: constant currencies
(2) Profit: profit from operations

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

ADJUSTING ITEMS INCLUDED IN PROFIT FROM OPERATIONS

Adjusting items are significant items in the profit from operations that individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance. 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 costs represent additional expenses incurred that are not related to the normal business and day-to-day activities. The new operating model includes revised organisation structures, standardised processes and shared back office services underpinned by a global single instance of SAP. The new organisation structures and processes are currently being implemented and the deployment of the new SAP system started in the third quarter of 2012 and will take around a total of four years to fully roll out. These initiatives also include a review of the Group's manufacturing operations, supply chain, overheads and indirect costs, organisational structure and systems and software used. The costs of these initiatives together with the costs of integrating acquired businesses into existing operations, including acquisition costs, are included in profit from operations under the following headings:

	2014	2013
	£m	£m
Employee benefit costs	**223**	140
Depreciation and impairment costs	**69**	11
Other operating expenses	**180**	161
Other operating income	**(20)**	(66)
Total	**452**	246

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

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

Other operating income in 2014 includes gains from the sale of land and buildings in Turkey, Uganda and the Democratic Republic of Congo. In 2013, other operating income includes gains from the sale of land and buildings in Australia, Denmark and Russia.

(b) Amortisation of trademarks and similar intangibles

The acquisitions of Protabaco, Bentoel, Tekel, ST, CN Creative Limited and the creation of CTBAT International Limited resulted in the capitalisation of trademarks and similar intangibles that are amortised over their expected useful lives, which do not exceed 20 years. The amortisation charge of £58 million (2013: £74 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 Limited in 2013 is accounted for at fair value in the arrangement (see page 31). This resulted in a £26 million gain in 2013 on a deemed partial disposal of a trademark. This is included in other operating income but has been treated as an adjusting item.

Adjusting items included in profit from operations cont…

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

On 30 September 2014, a Group subsidiary, NCR, Appvion and Windward Prospects entered into a Funding Agreement with regard to the costs for the clean-up of Fox River. Based on this Funding Agreement, £56 million has been paid with legal costs incurred of £7 million. The Fox River provision has been reviewed and £27 million has been released in 2014.

(e) Flintkote
In December 2014, a Group subsidiary entered into a settlement agreement in connection with various legal cases related to a former non-tobacco business in Canada. Under the terms of the settlement, the subsidiary will obtain protection from current and potential future Flintkote related asbestos liability claims in the United States. The settlement is contingent upon further documentation and approval of certain courts in the United States. This agreement led to a charge in 2014 of £374 million.

ADJUSTING ITEMS INCLUDED IN SHARE OF POST-TAX RESULTS OF ASSOCIATES AND JOINT VENTURES

(a) Adjusting items
The share of post-tax results of associates and joint ventures is after the following adjusting items, which are excluded from the calculation of adjusted earnings per share as set out on page 28.

In the year to 31 December 2014:

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

Reynolds American Inc. (RAI) recognised a net gain from discontinued activities of US$25 million, reduced by restructuring activities of US$16 million, resulting in a net gain of US$9 million. The Group's share of this net gain amounted to £4 million (net of tax).

Following the agreement in 2013 (described below), in June 2014, a further two states entered into a settlement agreement in relation to disputed Non-Participating Manufacturer (NPM) Adjustment Claims for the years 2003 to 2012. Under the settlement, RAI expects to receive more than US$170 million in Master Settlement Agreement (MSA) credits to be applied over five years. During 2014, RAI recognised income of US$34 million related to the 2013 liability as an adjusting item. The Group's share of this income amounted to £5 million (net of tax). Credits in respect of the 2014 liability and future years will be accounted for in the applicable year and will not be treated as adjusting items.

RAI has also recognised amounts that have been combined in the table of adjusting items in the Group income statement and are shown as "other". These are costs in respect of a number of Engle progeny lawsuits and other tobacco litigation charges that amount to US$102 million, the Group's share of which is £16 million (net of tax).

In the year to 31 December 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 Share Option Scheme. This resulted in a gain of £22 million, which was treated as a deemed partial disposal and included in the income statement.

During 2013, RAI recognised restructuring charges of US$24 million and the Group's share of these charges amounted to £4 million (net of tax).

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

In 2013, RAI, various other tobacco manufacturers, 19 states, the District of Columbia and Puerto Rico reached a final agreement related to RAI's 2003 MSA activities. Under this agreement RAI will receive credits, currently estimated to be more than US$1 billion, in respect of its NPM Adjustment claims related to the period from 2003 to 2012. During 2013, RAI recognised income of US$219 million related to its 2012 MSA liability as an adjusting item, the Group's share of which amounted to £33 million (net of tax). Credits in respect of the 2013 liability and future years will be accounted for in the applicable year and will not be treated as adjusting items.

In the year ended 31 December 2013, RAI recognised amounts that have been combined in the table of adjusting items and reported in "other". These mainly consist of a charge of US$18 million in respect of a number of Engle progeny lawsuits, the Group's share of which amounted to £3 million (net of tax); costs of US$34 million relating to other tobacco related litigation charges, the Group's share of which amounted to £6 million (net of tax); trademark amortisation and impairment of US$27 million, the Group's share of which amounted to £4 million (net of tax); and costs of US$124 million relating to losses on extinguishment of debt, the Group's share of which amounted to £22 million (net of tax).

CASH FLOW AND NET DEBT MOVEMENTS

a) Alternative cash flow

The IFRS cash flow statement on page 17 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.

	2014 £m	2013 £m
Adjusted profit from operations (page 12)	**5,403**	5,820
Depreciation, amortisation and impairment	**396**	392
Other non-cash items in operating profit	**45**	30
Profit from operations before depreciation and impairment	**5,844**	6,242
Increase in working capital	**(309)**	(375)
Net capital expenditure	**(627)**	(547)
Gross capital expenditure	**(689)**	(720)
Sale of fixed assets	**62**	173
Operating cash flow	**4,908**	5,320
Pension funds' shortfall funding	**(140)**	(190)
Net interest paid	**(426)**	(443)
Tax paid	**(1,433)**	(1,440)
Dividends paid to non-controlling interests	**(249)**	(265)
Cash generated from operations	**2,660**	2,982
Restructuring costs	**(325)**	(310)
Non-tobacco litigation: Flintkote and Fox River	**(437)**	-
Dividends and other appropriations from associates	**609**	699
Free cash flow	**2,507**	3,371
Dividends paid to shareholders	**(2,712)**	(2,611)
Share buy-back (including transaction costs)	**(800)**	(1,509)
Net investment activities	**(6)**	(19)
Net flow from share schemes and other	**108**	(79)
Net cash outflow	**(903)**	(847)
External movements on net debt		
Exchange rate effects*	**270**	(163)
Change in accrued interest and other	**(17)**	(32)
Change in net debt	**(650)**	(1,042)
Opening net debt	**(9,515)**	(8,473)
Closing net debt	**(10,165)**	(9,515)

* Including movements in respect of debt-related derivatives.

Cash flow and net debt movements cont…

In the alternative cash flow presented on page 24, the operating cash flow decreased by £412 million, or 7.7%, to £4,908 million, reflecting the growth in underlying operating performance at constant currency being more than offset by adverse exchange rate movements. Lower payments relating to pension funds, net interest paid, dividends to non-controlling interests and taxation offset the fall in appropriations from associates following the completion of the Reynolds American Inc. share buy-back (£94 million in 2014 and £189 million in 2013). These, combined with the increase in restructuring costs, and payments for Flintkote and Fox River, led to the Group's free cash flow decreasing by £864 million or 26% to £2,507 million.

The conversion of adjusted operating profit to operating cash flow remained strong at 91% (2013: 91%). However, due to payments made in relation to Flintkote (£374 million) and Fox River (£63 million), the ratio of free cash flow per share to adjusted diluted earnings per share fell to 64% (2013: 82%). Excluding the Flintkote and Fox River payments in 2014 this was 76%.

Below free cash flow, the principal cash outflows for 2014 comprise the payment of the prior year final dividend and the 2014 interim dividend, which was £101 million higher at £2,712 million, as well as a £800 million outflow (2013: £1,509 million) due to the on-market share buy-back programme that was suspended on 30 July 2014 due to the intended investment in Reynolds American Inc.

During 2014, the cash outflow from net investing activities was £6 million. In 2013, the cash outflow was mainly for the acquisition of CN Creative and amounted to £19 million.

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 £903 million (2013: £847 million outflow). After taking account of other changes, especially exchange rate movements, total net debt was £650 million higher at £10,165 million at 31 December 2014 (2013: £9,515 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:

	2014	2013
	£m	£m
Net debt due within one year:		
Borrowings	**2,479**	1,980
Related derivatives	**(79)**	(55)
Cash and cash equivalents	**(1,818)**	(2,106)
Current available-for-sale investments	**(50)**	(54)
	532	(235)
Net debt due beyond one year:		
Borrowings	**9,779**	9,716
Related derivatives	**(146)**	34
	9,633	9,750
Total net debt	**10,165**	9,515

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 17 includes the following items:

	2014 £m	2013 £m
Profit from operations	**4,546**	5,526
Adjustments for:		
Amortisation of trademarks and similar intangibles	**58**	74
Amortisation and impairment of other intangible assets	**69**	48
Gain on deemed partial disposal of a trademark	**-**	(26)
Depreciation and impairment of property, plant and equipment	**396**	355
Increase in inventories	**(405)**	(386)
Increase in trade and other receivables	**(36)**	(246)
Increase in trade and other payables	**203**	311
Decrease in net retirement benefit liabilities	**(170)**	(222)
Decrease in provisions for liabilities and charges	**(76)**	(19)
Other non-cash items	**49**	(49)
Cash generated from operations	**4,634**	5,366

d) IFRS net cash and cash equivalents

The net cash and cash equivalents in the IFRS Group cash flow statement on page 17 comprise:

	2014 £m	2013 £m
Cash and cash equivalents per balance sheet	**1,818**	2,106
Accrued interest	**(1)**	(1)
Overdrafts	**(325)**	(329)
Net cash and cash equivalents	**1,492**	1,776

e) Liquidity

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

The Group targets an average centrally managed debt maturity of at least five years with no more than 20% of centrally managed debt maturing in a single rolling year. As at 31 December 2014, the average centrally managed debt maturity was 6.8 years (2013: 7.2 years) and the highest proportion of centrally managed debt maturing in a single rolling 12-month period was 18.7% (2013: 18.3%).

It is Group policy that short-term sources of funds (including drawings under both the Group US$2 billion commercial paper programmes, and the Group £1 billion euro commercial paper programme) are backed by undrawn committed lines of credit and cash. At 31 December 2014, commercial paper of £160 million was outstanding (2013: £521 million).

In May 2014, the Group through B.A.T. International Finance p.l.c. negotiated a new central banking facility of £3 billion with a final maturity of May 2019 (with two additional one-year extensions at the option of the banks). This facility is provided by 22 banks. The new facility is on significantly improved terms compared to the previous central banking facility of £2 billion, with a maturity of December 2015, which was cancelled at the same time. The new facility was undrawn as at 31 December 2014 (2013: undrawn).

In September 2014, the Group signed a one-year bridge facility of US$4.7 billion with an extension option of up to one year for its proposed investment in Reynolds American Inc.

Cash flow and net debt movements cont…

In the year ended 31 December 2014, the Group continued with transactions in the capital markets. In September 2014, the Group repaid a maturing €600 million bond, this repayment was financed from Group cash balances. In September 2014, the Group issued a new CHF 350 million bond with a maturity of 2016; a new CHF 400 million bond with a maturity of 2021 and a new CHF 250 million bond with a maturity of 2026. In August 2014 the Group repaid a maturing MYR 250 million note, this repayment was financed from Group cash balances. In June 2014, the Group purchased and cancelled an existing US$40 million bond with a maturity of 2029; this purchase was financed from Group cash balances. In March 2014, the Group issued a new €400 million bond with a maturity of 2018 and a new €600 million bond with a maturity of 2029.

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

The Group has drawn US$225 million in 2013 and 2014 against a Chilean peso facility, maturing in 2016.

EARNINGS PER SHARE

Adjusted diluted earnings per share decreased by 3.9% to 208.1p (2013: 216.6p), principally as a result of the lower profit from operations and the lower share of post-tax results of associates and joint ventures, both due to adverse exchange rate movements, partially offset by lower interest paid and by the impact of the share buy-back programme. At constant rates, adjusted diluted earnings per share increased by 7.9% to 233.7p (2013: 216.6p). Basic earnings per share were 18.6% lower at 167.1p (2013: 205.4p).

	2014 pence	2013 pence
Earnings per share		
- basic	**167.1**	205.4
- diluted	**166.6**	204.6
Adjusted earnings per share		
- basic	**208.7**	217.4
- diluted	**208.1**	216.6
Headline earnings per share		
- basic	**169.7**	201.1
- diluted	**169.1**	200.4

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.

Earnings per share cont…

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

	2014 pence	2013 pence
Unadjusted diluted earnings per share	**166.6**	204.6
Effect of restructuring and integration costs	**20.6**	11.0
Effect of amortisation of trademarks and similar intangibles	**2.7**	3.2
Gain on deemed partial disposal of a trademark	**-**	(1.4)
Effect of Fox River	**(1.4)**	-
Effect of Flintkote	**20.0**	-
Effect of associates' adjusting items	**(0.4)**	(0.8)
Adjusted diluted earnings per share	**208.1**	216.6
Effect of exchange rate movements	**25.6**	
Adjusted diluted earnings per share (at constant rates)	**233.7**	216.6

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

	2014 pence	2013 pence
Unadjusted diluted earnings per share	**166.6**	204.6
Effect of impairment of intangibles and property, plant and equipment and held-for-sale assets	**4.7**	1.7
Effect of gains on disposal of property, plant and equipment and held-for-sale assets	**(1.4)**	(3.5)
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
Effect of issue of shares and change in shareholding in associate	**(0.8)**	(1.1)
Diluted headline earnings per share	**169.1**	200.4

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

	2014	2013
Headline earnings per share amended for Fox River and Flintkote	**187.7**	200.4

The earnings per share are based on:

	2014		2013	
	Earnings £m	**Shares m**	Earnings £m	Shares m
Earnings per share				
- basic	**3,115**	**1,864**	3,904	1,901
- diluted	**3,115**	**1,870**	3,904	1,908
Adjusted earnings per share				
- basic	**3,891**	**1,864**	4,133	1,901
- diluted	**3,891**	**1,870**	4,133	1,908
- diluted, at constant rates	**4,371**	**1,870**	4,133	1,908
Headline earnings per share				
- basic	**3,163**	**1,864**	3,823	1,901
- diluted	**3,163**	**1,870**	3,823	1,908

DIVIDENDS

Recommendation

The Board recommends a final dividend of 100.6p per ordinary share of 25p for the year ended 31 December 2014. If approved by shareholders at the Annual General Meeting to be held on 29 April 2015, the final dividend will be payable on 7 May 2015 to shareholders registered on either the UK main register or the South Africa branch register on 20 March 2015 (the record date).

General Dividend Information

The following is a summary of the dividends declared/recommended for the years ended 31 December 2014 and 2013.

	2014 Pence per share	**2014** £m	2013 Pence per share	2013 £m
Ordinary shares				
Interim				
- 2014 paid 30 September 2014	**47.5**	**881**		
- 2013 paid 30 September 2013			45.0	846
Final				
- 2014 payable 7 May 2015	**100.6**	**1,866**		
- 2013 paid 8 May 2014			97.4	1,831
	148.1	**2,747**	142.4	2,677

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 2015**
Last Day to Trade (LDT) cum dividend (JSE)	Friday 13 March
Shares commence trading ex-dividend (JSE)	Monday 16 March
Shares commence trading ex-dividend (LSE)	Thursday 19 March
Record date (JSE and LSE)	Friday 20 March
Payment date	Thursday 7 May
No removal requests permitted between the UK main register and the South Africa branch register	Thursday 26 February to Friday 20 March (inclusive)
No transfers permitted between the UK main register and the South Africa branch register	Monday 16 March to Friday 20 March (inclusive)
No shares may be dematerialised or rematerialised	Monday 16 March to Friday 20 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 = 17.76480 as at 24 February 2015 (the closing rate on that date as quoted by Bloomberg), results in an equivalent final dividend of 1,787.13888 SA cents per ordinary share.

Dividends cont…

South Africa Branch Register: Dividends Tax Information

South Africa Dividends Tax of 268.07083 SA cents per ordinary share will be withheld from the gross final dividend paid to shareholders on the South Africa branch register at the rate of 15% unless a shareholder qualifies for an exemption. After Dividends Tax has been withheld, the net dividend will be 1,519.06805 cents per ordinary share.

At the close of business on 24 February 2015 (the latest practicable date prior to the date of the recommendation of the final dividend), British American Tobacco p.l.c. (the "Company") had a total of 1,864,117,591 ordinary shares in issue (excluding treasury shares). The Company held 162,645,590 ordinary shares in treasury giving a total issued share capital of 2,026,763,181 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 Proprietary Limited, contact details for which are given in the 'Corporate Information' section below.

RETIREMENT BENEFIT SCHEMES

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

The present total value of funded scheme liabilities as at 31 December 2014 was £6,609 million (2013: £5,921 million), while unfunded scheme liabilities amounted to £385 million (2013: £337 million). The schemes' assets increased from £5,780 million in 2013 to £6,266 million in 2014.

After excluding unrecognised scheme surpluses of £13 million (2013: £19 million), the overall net liability for all pension and health care schemes in Group subsidiaries amounted to £741 million at the end of 2014, compared to £497 million at the end of 2013.

The actuarial losses of £428 million (2013: £308 million gain) recognised in the Group Statement of Comprehensive Income are driven by changes in the discount rates, inflation rates and mortality assumptions used in the valuation of retirement benefit scheme liabilities at each year end, resulting in a £884 million loss (2013: £181 million gain) offset by increases in the fair value of scheme assets of £456 million (2013: £127 million).

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.

CHANGES IN THE GROUP

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 the worldwide rights outside China to the leading CNTC brand Shuang Xi.

CTBAT is reported as part of the Asia-Pacific region with the majority of its international sales (non-China domestic sales) made through existing end markets of the Group in that region. All sales to mainland China are via CNTC. CTBAT operates as an extension of the existing tobacco businesses of its investors and is therefore treated as a joint operation as defined under IFRS 11 Joint Arrangements. The Group 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.

The contribution of brands and businesses into CTBAT were recognised by the new entity at fair value, resulting in a gain on the deemed partial disposal of the State Express 555 brand which was treated as an adjusting item (see page 21).

The impact of the arrangement on operating results for 2014 and 2013 is not material.

SHARE BUY-BACK PROGRAMME

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

During the year ended 31 December 2014, 23 million shares were bought at a cost of £795 million, excluding transaction costs of £5 million. For the year ended 31 December 2013, 44 million shares were bought at a cost of £1,500 million, excluding transaction costs of £9 million.

RELATED PARTIES

The Group's related party transactions and relationships for 2013 were disclosed on page 184 of the Annual Report for the year ended 31 December 2013. In the year to 31 December 2014, there were no material changes in related parties or in related party transactions except for the matters noted below:

During the year, the Group received proceeds of £94 million (2013: £189 million) in respect of its participation in the share buy-back programme conducted by Reynolds American Inc. This programme ceased in the second quarter of 2014.

On 15 July 2014, the Group announced that it has agreed to invest US$4.7 billion as part of Reynolds American Inc.'s proposed acquisition of Lorillard enabling the Group to maintain its 42% equity position in the enlarged business. The investment is contingent upon the completion of Reynolds American Inc.'s acquisition of Lorillard. The shareholders of all parties approved the transaction at the shareholders' meetings in January 2015. The acquisition is scheduled to be completed in the first half of 2015 subject to required regulatory approvals in the US.

In addition, the Group and Reynolds American Inc. have agreed in principle to collaborate on next-generation products and negotiations to reach final agreements are ongoing.

In December 2014, a charge was registered over the Group's head office, up to a maximum of £150 million, to secure contributions payable to the British American Tobacco UK Pension.

FOREIGN CURRENCIES

The principal exchange rates used were as follows:

	Average		Closing	
	2014	2013	**2014**	2013
Australian dollar	**1.827**	1.623	**1.905**	1.851
Brazilian real	**3.874**	3.381	**4.145**	3.908
Canadian dollar	**1.819**	1.612	**1.806**	1.760
Euro	**1.241**	1.178	**1.289**	1.202
Indian rupee	**100.529**	91.707	**98.424**	102.447
Japanese yen	**174.223**	152.715	**186.946**	174.080
Russian rouble	**63.412**	49.853	**93.555**	54.424
South African rand	**17.861**	15.099	**18.039**	17.347
US dollar	**1.648**	1.564	**1.559**	1.656

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, among others, excise tax, value-added taxes, sales taxes, corporate taxes, withholding taxes and payroll taxes.

The estimated costs of known tax obligations have been provided in these accounts in accordance with Group's accounting policies. In some countries, tax law requires that full or part payment of disputed tax assessments be made pending resolution of the dispute. To the extent that such payments exceed the estimated obligation, they would not be recognised as an expense.

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

Group litigation

Group companies, as well as other leading cigarette manufacturers, are defendants in a number of product liability cases. In a number of the cases, the amounts of compensatory and punitive damages sought are significant.

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

Summary

Having regard to all these matters, with the exception of Fox River and Flintkote, the Group (i) does not consider it appropriate to make any provision or charge in respect of any pending litigation, (ii) does not believe that the ultimate outcome of this litigation will significantly impair the Group's financial condition.

Full details of the litigation against Group companies and tax disputes as at 31 December 2014 will be included in the Annual Report for the year ended 31 December 2014. There were no material developments in 2014 that would impact on the financial position of the Group, except for the settlement agreement in respect of the current and potential future Flintkote related asbestos liability claims in the United States (see page 22).

FRANKED INVESTMENT INCOME GROUP LITIGATION ORDER

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

The High Court judgment in November 2008 concluded, among other things, that the corporation tax provisions relating to dividend income from EU subsidiaries breached EU law. It also concluded that certain dividends received before 5 April 1999 from the EU and, in some limited circumstances after 1993 from outside the EU, should have been creditable against advance corporation tax (ACT) liabilities with the consequence that ACT need not have been paid. Claims for the repayment of UK tax incurred where the dividends were from the EU were allowed back to 1973.

The case was heard by the Court of Appeal in October 2009 and the judgment handed down on 23 February 2010. The Court of Appeal determined that various questions, including which companies in the corporate tree can be included in a claim, should be referred back to the ECJ for further clarification. In addition, the Court determined that the claim should be restricted to six years and not cover claims dating back to 1973.

The issue of time limits was heard by the Supreme Court in February 2012 and in May 2012 the Supreme Court decided in the Group's favour, that claims submitted before 8 September 2003 can go back to 1973. A hearing took place in February 2012 at the ECJ on the questions referred from the Court of Appeal.

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

Franked investment income Group litigation order cont…

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

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

ANNUAL REPORT

Statutory accounts

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2014 or 2013. Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered following the Company's Annual General Meeting. The auditors' reports on both the 2013 and 2014 accounts were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of Companies Act 2006 or equivalent preceding legislation.

Publication

The Annual Report will be published on bat.com on 27 March 2015. 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 that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries and markets in which the Group operates. It is believed that the expectations reflected in this announcement are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated.

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

DISTRIBUTION OF PRELIMINARY STATEMENT

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

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

Nicola Snook
Secretary
25 February 2015

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 2015

Wednesday 29 April	Interim Management Statement
Wednesday 29 April	Annual General Meeting at 11.30am Milton Court Concert Hall, Silk Street, London EC2Y 9BH
Wednesday 29 July	Half-Yearly Report
Wednesday 28 October	Interim Management Statement

CALENDAR FOR THE FINAL DIVIDEND 2014

2015	
Thursday 26 February	Dividend announced: amount of dividend per share in both sterling and rand; applicable exchange rate and conversion date – Tuesday 24 February 2015; plus additional applicable information as required in respect of South Africa Dividends Tax(1).
Thursday 26 February to Friday 20 March	From the commencement of trading on Thursday 26 February 2015 to Friday 20 March 2015 (inclusive), no removal requests in either direction between the UK main register and the South Africa branch register will be permitted.
Friday 13 March	Last Day to Trade or LDT (JSE)
Monday 16 March to Friday 20 March	From the commencement of trading on Monday 16 March 2015 to Friday 20 March 2015 (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 16 March	Ex-dividend date (JSE)
Thursday 19 March	Ex-dividend date (LSE)
Friday 20 March	Record date (LSE and JSE)
Wednesday 15 April	Last date for receipt of Dividend Reinvestment Plan (DRIP) elections (UK main register only)
Thursday 7 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 29.

For holders of American Depositary Receipts (ADRs), the record date for ADRs is also Friday 20 March 2015 with an ADR payment date of Tuesday 12 May 2015.

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 Proprietary Limited
PO Box 61051, Marshalltown 2107, South Africa
tel: 0861 100 925; +27 11 870 8222
email enquiries: web.queries@computershare.co.za

American Depositary Receipts (ADRs)

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

Publications

British American Tobacco Publications
Unit 80, London Industrial Park, Roding Road, London E6 6LS, UK
tel: +44 20 7511 7797; facsimile: +44 20 7540 4326
e-mail enquiries: bat@team365.co.uk or
The Company's Representative office in South Africa using the contact details shown below.

British American Tobacco p.l.c.

Registered office
Globe House
4 Temple Place
London
WC2R 2PG
tel: +44 20 7845 1000

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

British American Tobacco p.l.c.

Representative office in South Africa
34 Alexander Street
Stellenbosch 7600
South Africa
(PO Box 631, Cape Town 8000, South Africa)
tel: +27 21 888 3194