

30 July 2014

**BRITISH AMERICAN TOBACCO p.l.c.  
HALF-YEARLY REPORT TO 30 JUNE 2014**

**ON TRACK FOR ANOTHER GOOD PERFORMANCE**

KEY FINANCIALS Six Months Results - unaudited	2014		2013	Change	
	Current rates	Constant rates		Current rates	Constant rates
Revenue	<b>£6,798m</b>	<b>£7,780m</b>	£7,572m	-10%	+3%
Adjusted profit from operations*	<b>£2,665m</b>	<b>£3,066m</b>	£2,944m	-9%	+4%
Profit from operations	<b>£2,458m</b>	<b>£2,844m</b>	£2,807m	-12%	+1%
Adjusted diluted earnings per share*	<b>101.8p</b>	<b>117.8p</b>	109.1p	-7%	+8%
Basic earnings per share	<b>93.3p</b>		106.6p	-12%	
Interim dividend per share	<b>47.5p</b>		45.0p	+6%	

\*The non-GAAP measures, including adjusting items and constant currencies, are set out on page 21.

**HALF YEAR HIGHLIGHTS**

- Group revenue was up by 3% at constant rates of exchange. Reported revenue was 10% lower, as a result of adverse exchange rate movements.
- Adjusted Group profit from operations increased by 4% at constant rates of exchange and decreased by 9% at current rates.
- Profit from operations, at current rates of exchange, was 12% lower at £2,458 million.
- Operating margin, at current rates of exchange, grew by 30 basis points to 39.2%.
- Adjusted diluted earnings per share, at constant rates of exchange, were up by 8%, principally as a result of the growth in adjusted profit from operations. At current rates, it was 7% lower at 101.8p.
- Basic earnings per share were 12% lower at 93.3p (2013: 106.6p).
- Group cigarette volume was 331 billion, a decline of 0.4%. Total tobacco volume (including cigarettes) was 0.5% lower.
- The Group's cigarette market share continued to increase in its key markets, led by good market share growth of the Global Drive Brands, which grew volume by 5.7%.
- Planned US\$4.7 billion investment to maintain the 42% shareholding in the enlarged Reynolds American, contingent on its proposed acquisition of Lorillard.
- 19 million shares were bought back at a cost of £632 million, excluding transaction costs. Due to the intended investment in Reynolds American, the share buy-back programme is suspended with effect from 30 July 2014.
- In line with existing policies, the Board has declared an interim dividend of 47.5p, a 6% increase on last year, to be paid on 30 September 2014.

**Richard Burrows, Chairman, commenting on the 6 months ended 30 June 2014**

"British American Tobacco performed well during the first half of the year but, as expected, results were affected by the strength of sterling. We are consistently increasing our market share, driven by the strong growth of our Global Drive Brands. Tight control of costs resulted in an improved operating margin. We remain confident of high single-digit earnings growth at constant rates of exchange, which we have said we will recognise with an increase in the dividend."

## CHIEF EXECUTIVE'S REVIEW

### **We remain on track for another good performance**

We are on course to achieve another good set of results in 2014. We are consistently growing our market share and we continue to improve our volume performance, driven by our Global Drive Brands (GDBs). Around the world, there were good performances across all our regions.

Pricing remains on track, with the timing of price increases, compared with 2013, more weighted towards the second half of the year. Strong growth in emerging markets impacted the Group's price-mix. The underlying business performance, measured at constant rates of exchange, was good, with revenue up by 3% and adjusted profit by 4%, despite the impact of transactional gains and losses in operations, generated by exchange rate movements. Adjusted diluted earnings per share were up by 8%.

### **We continue to grow market share**

The Group's cigarette market share increased by 20 basis points in our key markets, led by our GDBs, which grew share by 60 basis points. Rothmans, Pall Mall and Dunhill all increased share, while Kent and Lucky Strike were stable. We also increased our share of the premium segment by 40 basis points.

### **Our volume decline moderates**

Cigarette volume in the first half of the year was down by just 0.4%, continuing an improving trend. This was driven by the strong performance of our GDBs, which grew volume by 5.7%. Our international brands, including GDBs, make up 58% of our total cigarette volume. Total tobacco volume was down by 0.5%.

### **We continued to drive down cost**

Our operating margin grew by 30 basis points, despite absorbing transactional exchange losses.

### **We are investing in sustainable growth**

The Group continues to build stronger, sustainable businesses in key markets. Growth across Asia Pacific was particularly strong, with excellent performances in Bangladesh, Pakistan and Indonesia. Our businesses in Brazil and Russia both achieved good market share growth. The economic environment across Western Europe is still fragile but there are signs of improvement and we are well-placed to gain advantage of this upturn when it comes.

We are also investing in new product categories and we are committed to leading the industry with a strong pipeline of next-generation tobacco and nicotine products, including electronic cigarettes and tobacco heating devices. One year after launching Vype, our first electronic cigarette in the UK, we continue to increase retail distribution and to strengthen the product offer for consumers in this growing category.

### **We plan to maintain our shareholding in the enlarged Reynolds American**

Our planned US\$4.7 billion investment to maintain our 42% shareholding in an enlarged Reynolds American, as part of its proposed acquisition of Lorillard in the US, will enhance our position in one of the world's most profitable tobacco markets.

### **We are committed to delivering shareholder value**

Despite the adverse impact of exchange rate movements, we continue to deliver for shareholders. At constant rates, adjusted diluted earnings per share increased by 8% and our interim dividend of 47.5p is 6% up on last year and will be paid on 30 September 2014.

I remain confident that with our strong regional performances, proven strategy and powerful brands, we are set to deliver another year of good growth.

**Nicandro Durante**  
29 July 2014

## REGIONAL REVIEW

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

	Adjusted profit from operations			Cigarette volumes		
	6 months to			6 months to		Year to
	30.6.14		30.6.13	30.6.14	30.6.13	31.12.13
	Constant rates	Current rates				
	£m	£m	£m	Bns	Bns	Bns
Asia-Pacific	926	801	875	104	100	197
Americas	759	632	732	63	64	134
Western Europe	562	537	573	52	57	119
EEMEA	819	695	764	112	111	226
Total	<b>3,066</b>	<b>2,665</b>	<b>2,944</b>	<b>331</b>	<b>332</b>	<b>676</b>
Total tobacco volume				<b>344</b>	<b>346</b>	<b>703</b>

*References to profit in the performance of markets are at current rates of exchange. Adjusted profit from operations is derived after excluding adjusting items from profit from operations and is explained in the Group's non-GAAP measures on page 21.*

British American Tobacco performed well during the first half of the year with an improving trend in volume and continued growth of the Global Drive Brands. However, the Group has been impacted by adverse exchange rate movements, in particular, the weakness of the Brazilian real, South African rand, Australian dollar, Canadian dollar, Russian rouble and Japanese yen against sterling.

Good pricing and improving volume were more than offset by adverse exchange rate movements, resulting in reported revenue down by 10% at £6,798 million. At constant rates of exchange, revenue was up by 3%. Reported profit from operations was 12% lower at £2,458 million with a 9% decrease in adjusted profit from operations. At constant rates of exchange, adjusted profit from operations grew by 4%.

Group cigarette volume from subsidiaries was 331 billion, down by 0.4%. This was mainly the result of the Group's strong performances in Bangladesh, Pakistan, Ukraine, Indonesia and Mexico, more than offset by contracting industry volumes affecting some of our key markets, such as Russia, Vietnam, Brazil, Denmark and Poland.

Fine Cut volume was down 1.3%, driven by market declines in Western Europe, mainly in Spain, Italy and France. Total tobacco volume (including cigarettes) was 0.5% lower at 344 billion equivalent sticks.

Global Drive Brands cigarette volume was up by 5.7%, with their combined market share growing strongly in the Group's key markets. Dunhill volume increased by 4.9% with growth in Indonesia, Brazil, Romania and South Africa, partially offset by industry decline in Malaysia. Kent's volume decreased by 2.9% mainly due to industry declines in Russia and Romania, partially offset by good growth in Japan, Ukraine and the Middle East.

Lucky Strike volume was down by 1.9%, mainly driven by lower volume in Chile, Poland and Germany, partially offset by higher volume in Russia, Mexico, Spain and France. Pall Mall volume rose by 7.6% with strong growth in Pakistan, South Africa, Argentina, Mexico and Chile, partially offset by lower volume in Russia, the UK, Italy and Turkey. Rothmans grew by 32.8% with strong performances in Russia, Italy, Ukraine, the UK and South Africa.

## Regional review cont...

### **Asia-Pacific: Adjusted profit at constant rates of exchange increased by £51 million or 6%**

Adjusted profit at current rates was £74 million lower at £801 million. At constant rates of exchange, good performances in Australia, Malaysia, Pakistan and Bangladesh were partially offset by Japan, Indonesia, New Zealand and Vietnam. Volume at 104 billion was 3.6% higher than last year, with increases in Bangladesh, Pakistan and Indonesia, partially offset by lower volumes in Vietnam, Australia and Malaysia.

<b>Country</b>	<b>Performance at current rates of exchange</b>
Malaysia	Market share was stable after a robust share performance from Dunhill, while Peter Stuyvesant grew volume and market share. Profit was stable as the impact of exchange rate movements and lower volume were offset by higher pricing. Profit increased strongly at constant rates of exchange.
Australia	Although, at constant currency, profit grew strongly through higher pricing and cost-saving initiatives, reported profit was adversely impacted by exchange rate movements. Growth in the low-priced segment resulted in a lower market share and volume.
New Zealand	Volume, market share and profit were lower as a result of industry contraction and competitor pricing activities.
Japan	Market share was higher and volume stable, driven by the good performance of Kent. Adverse exchange rate movements resulted in lower reported profit.
Vietnam	Growth in market share was driven by Kent and State Express 555. Volume was lower due to market contraction. Profit decreased as the benefit of price increases in 2013 was partially offset by lower volume and higher marketing investment.
South Korea	Profit was higher driven by cost savings, partially offset by lower industry volume. Market share was stable with a good performance by Dunhill Fine Cut.
Taiwan	Strong performances by Pall Mall and Lucky Strike contributed to market share and volume growth. Profit decreased on the back of higher marketing investment which was partially offset by higher volume.
Pakistan	Strong performances by Pall Mall and John Player Gold Leaf drove market share to a record high, strengthening the Group's leadership position. Profit increased significantly as a result of improved margins and higher volume.
Bangladesh	Excellent growth in volume and market share were the result of the strong performance by the whole brand portfolio, leading to higher profit and extending the Group's leadership position.
Indonesia	Dunhill continued its good performance, driving volume and share growth in the premium segment. Overall, the Group's volume increase outperformed the industry. Marketing investment and excise increases impacted profitability.

### **Americas: Adjusted profit at constant rates of exchange increased by £27 million or 4%**

Adjusted profit at current rates declined by £100 million to £632 million. At constant rates of exchange, good performances from Mexico, Chile, Venezuela and Argentina were partially offset by Brazil and Canada. Volume was down 1.0% at 63 billion, mainly due to reduced industry volume in Brazil and Canada.

<b>Country</b>	<b>Performance at current rates of exchange</b>
Brazil	Market share increased strongly, led by a good performance from Dunhill, strengthening the Group's leadership position. Volume was lower due to market contraction. Profit was down as a result of the lower volume and adverse exchange rate movements.
Canada	Pall Mall delivered a very good performance, increasing volume and market share. Profit was lower, following a decline in overall volume.
Mexico	An outstanding performance by Pall Mall led to higher volume, a strong profit increase and significant market share growth.

## Regional review cont...

Argentina	Despite lower volume, profit was higher, driven by better pricing and cost savings. The growth of Lucky Strike and Pall Mall led to a small increase in market share.
Chile	Market share was higher on the back of a strong performance by Pall Mall. Industry volume declined following excise-driven price increases and a subsequent increase in illicit trade. Profit in constant currency grew but reported profit was lower.
Venezuela	Strong growth in volume and a higher market share were driven by excellent performances across the brand portfolio. Profit grew strongly despite the difficult exchange environment.
Colombia	Market share grew, driven by Kool and Belmont. Lower volume, higher marketing investment and exchange rate movements, partially offset by higher pricing, resulted in lower profit.

### Western Europe: Adjusted profit at constant rates of exchange decreased by £11 million or 2%

Adjusted profit at current rates was down by £36 million to £537 million as a result of industry volume decline, delayed pricing and adverse currency exchange rate movements. At constant rates of exchange, there were good profit performances in Germany, Belgium, the Netherlands and Romania, offset by declines in Italy, France, Poland, Switzerland and the UK. Cigarette volume was 8.1% lower at 52 billion, mainly as a result of trade inventory movements principally in Denmark and market contractions in Poland and Romania, partially offset by better performances in Italy and Spain. Excluding the trade inventory movements, our underlying volume was 6.1% down. Fine Cut volume was 1.0% lower at 10 billion sticks equivalent, with good performances in Germany, Hungary and Belgium offset by declines in Spain, Italy, France and Poland.

Country	Performance at current rates of exchange
Italy	Cigarette volume grew, with a strong performance by Rothmans but market share was slightly down. The difficult economic environment continued, while the absorption of a VAT increase and continued down-trading led to profit decline.
Germany	Profit increased strongly but market share declined slightly. There were robust performances by Lucky Strike and Pall Mall. Fine Cut grew volume and share.
France	Market share was stable, driven by the good performance of Lucky Strike. Profit decreased as a result of volume decline and absorption of an excise increase.
Switzerland	Market share was maintained but volume declined strongly, in line with the industry market contraction, and as a result profit declined.
The Netherlands	Volume was up strongly following good performances by Lucky Strike and Pall Mall. Profit was higher, mainly driven by better volume and cost reductions.
Belgium	Market share, volume and profit all increased, driven by strong performances by Lucky Strike, Kent and Pall Mall Fine Cut.
Spain	Volume was significantly higher due to trade inventory adjustments in prior years, supported by the good performances of Lucky Strike and Pall Mall. Profit was lower as a result of additional marketing investment.
Romania	Profit grew in local currency but reported profit was in line with last year due to exchange rate movements. Market share and volume were lower although there were good performances by Pall Mall and Dunhill.
Poland	Market share was up after a good performance by Pall Mall. The industry volume decline impacted profit.
The United Kingdom	A strong performance by Rothmans led to an increase in market share. Profit was lower due to the phasing of marketing investment.
Denmark	Industry volume declined significantly following increased trade demand at the end of 2013, ahead of an excise increase in 2014. Although market share was lower, leadership of the premium segment was maintained. Profit was lower as a result of volume decline.

## Regional review cont...

### Eastern Europe, Middle East and Africa: Adjusted profit at constant rates of exchange increased by £55 million or 7%

Adjusted profit at current rates decreased by £69 million to £695 million. At constant rates of exchange, profit increased due to price increases, cost-saving initiatives and higher volume. There were good underlying performances by Russia, the GCC and Ukraine, partially offset by Turkey. Volume was up 0.4% to 112 billion, driven by Ukraine and Turkey, partially offset by lower volume in Russia.

Country	Performance at current rates of exchange
Russia	Growth in market share was driven by the excellent performances of Rothmans and Lucky Strike. Volume declined following market contraction. Profit in constant currency grew despite increased marketing investment but reported profit was lower, impacted by adverse exchange rate movements.
Ukraine	Strong growth in volume and an increase in market share, driven by the performances of Rothmans and Kent, resulted in a significant increase in profit. Industry volume benefited from trade demand ahead of an excise increase.
Turkey	Volume increased and market share was up. However, competitive pricing, especially in the low-price segment, led to lower profit.
The GCC	Volume was slightly lower and market share declined. Profit in local currency grew strongly but the growth was offset by adverse exchange rate movements.
Nigeria	Volume was higher, driven by the good performances of Benson & Hedges and Dunhill. Profit was stable in constant currency but lower at current rates of exchange.
South Africa	Volume and profit were stable, but the depreciation of the rand resulted in lower reported profit. Despite a decline in market share, Dunhill, Rothmans, Pall Mall and Peter Stuyvesant performed well.

## Regional review cont...

The following includes a summary of the analysis of revenue, adjusted profit from operations, share of post-tax results of associates and joint ventures and adjusted diluted earnings per share, as reconciled between reported information and non-GAAP management information on pages 22 and 23.

### REGIONAL INFORMATION

For the 6 months ended 30 June	Asia-Pacific	Americas	Western Europe	EEMEA	Total
<b>SUBSIDIARIES</b>					
<b>Volume (cigarette billions)</b>					
2014	104	63	52	112	331
2013	100	64	57	111	332
Change*	3.6%	(1.0)%	(8.1)%	0.4%	(0.4)%
<b>Revenue (£m)</b>					
2014 (at constant)	2,216	1,728	1,651	2,185	7,780
2014 (at current)	1,932	1,415	1,583	1,868	6,798
2013	2,108	1,650	1,714	2,100	7,572
Change (at constant)	5%	5%	(4)%	4%	3%
Change (at current)	(8)%	(14)%	(8)%	(11)%	(10)%
<b>Adjusted profit from operations (£m)</b>					
2014 (at constant)	926	759	562	819	3,066
2014 (at current)	801	632	537	695	2,665
2013	875	732	573	764	2,944
Change (at constant)	6%	4%	(2)%	7%	4%
Change (at current)	(8)%	(14)%	(6)%	(9)%	(9)%
<b>Operating margin based on adjusted profit (%)</b>					
2014 (at constant)	41.8%	43.9%	34.0%	37.5%	39.4%
2014 (at current)	41.5%	44.7%	33.9%	37.2%	39.2%
2013	41.5%	44.4%	33.4%	36.4%	38.9%

\*Based on absolute volumes.

## REGIONAL INFORMATION

For the 6 months ended 30 June	Asia-Pacific	Americas	Western Europe	EEMEA	Total
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## ASSOCIATES AND JOINT VENTURES

## Share of post-tax results of associates and joint ventures (£m)

2014 (at current)	158	203	-	3	364
2013	175	249	1	-	425
Change	(10)%	(18)%	-	-	(14)%

## Share of adjusted post-tax results of associates and joint ventures (£m)

2014 (at constant)	169	221	-	3	393
2014 (at current)	142	204	-	3	349
2013	148	219	1	-	368
Change (at constant)	14%	1%	-	-	7%
Change (at current)	(4)%	(7)%	-	-	(5)%

## GROUP

For the 6 months ended 30 June	Total
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## Underlying tax rate of subsidiaries (%)

2014	30.7%
2013	30.5%

## Adjusted diluted earnings per share (pence)

2014 (at constant)	117.8
2014 (at current)	101.8
2013	109.1
Change (at constant)	8%
Change (at current)	(7)%



## FINANCIAL AND OTHER INFORMATION

### NET FINANCE COSTS

Net finance costs at £208 million were £33 million lower than last year, principally reflecting lower interest paid as a result of lower borrowing costs, increased interest income on cash balances and additional net fair value and foreign exchange gains in the Group.

Net finance costs comprise:

	6 months to		Year to
	30.6.14	30.6.13	31.12.13
	£m	£m	£m
Finance costs	(248)	(252)	(532)
Finance income	40	11	66
	(208)	(241)	(466)
Comprising:			
Interest payable	(295)	(302)	(614)
Interest and dividend income	38	24	64
Net impact of fair value and exchange	49	37	84
- fair value changes - derivatives	42	47	103
- exchange differences	7	(10)	(19)
	(208)	(241)	(466)

### RESULTS OF ASSOCIATES

The Group's share of the post-tax results of associates decreased by £61 million, or 14%, to £364 million.

The Group's share of the adjusted post-tax results of associates decreased by 5% to £349 million, with a rise of 7% to £393 million at constant rates of exchange.

The adjusted contribution from Reynolds American decreased by 7% to £203 million. At constant rates of exchange the increase was 1%. The Group's adjusted contribution from its main associate in India, ITC, was £137 million, down 5%. At constant rates of exchange, the contribution would have been 13% higher than last year.

See page 25 for the adjusting items.

### TAXATION

	6 months to		Year to
	30.6.14	30.6.13	31.12.13
	£m	£m	£m
UK	-	-	-
Overseas			
- current year tax expense	719	751	1,581
- adjustment in respect of prior periods	14	-	(14)
Current tax	733	751	1,567
Deferred tax	(5)	52	33
	728	803	1,600

The tax rate in the income statement of 27.9% for the six months to 30 June 2014 (30 June 2013: 26.8%, 31 December 2013 27.6%) is 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 30 was 30.7% in 2014 and 30.5% for the six months to 30 June 2013. For the year to 31 December 2013 it was 30.7%. The increase for the six months to 30 June 2014 is mainly due to a change in the mix of profits. The charge relates to taxes payable overseas.

Refer to page 34 for the Franked Investment Income Group Litigation Order update.

## FREE CASH FLOW AND NET DEBT

Operating cash flow decreased by £158 million or 9% to £1,682 million, primarily reflecting the lower adjusted profit from operations due to exchange rate movements, and higher net capital expenditure, partially offset by working capital movements. The higher cash outflows in respect of net interest paid and restructuring costs, together with lower dividends and other appropriations from associates (due to the Reynolds American share buy-back being £17 million lower at £93 million) were partially offset by lower dividends paid to non-controlling interests and lower tax paid. These led to the Group's free cash flow decreasing by £245 million or 30% to £567 million.

The ratio of free cash flow per share to adjusted diluted earnings per share was 30% (2013: 39%).

Closing net debt was £10,961 million at 30 June 2014 (30 June 2013: £10,548 million and 31 December 2013: £9,515 million).

The Group's alternative cash flow statement is shown on page 26 and explained on page 21 under non-GAAP measures.

## RISKS AND UNCERTAINTIES

The principal risks and uncertainties affecting the business activities of the Group were identified under the heading 'Key Group risk factors', set out on pages 24 to 29 of the Annual Report for the year ended 31 December 2013, a copy of which is available on the Group's website [www.bat.com](http://www.bat.com). The Key Group risks and applicable sub-categories are summarised under the headings of:

Marketplace: Competition from illicit tobacco trade; Failure to lead developing non-tobacco nicotine market

Excise and tax: Excise shocks from tax rate increases or structure changes; Onerous disputed taxes, interest and penalties

Finance: Translational foreign exchange rate exposures; Access to end market cash resources

Operations: Geopolitical tensions; Risk of injury, illness or death in the workplace

Regulation: Tobacco regulation inhibits growth strategy

In the view of the Board, the key risks and uncertainties for the remaining six months of the financial year continue to be those set out in the above section of the 2013 Annual Report. These should be read in the context of the cautionary statement regarding forward looking statements on page 36 of this Half-Yearly Report.

## GOING CONCERN

A full description of the Group's business activities, its financial position, cash flows, liquidity position, facilities and borrowings position together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report and in the notes to the accounts, all of which are included in the 2013 Annual Report that is available on the Group's website, [www.bat.com](http://www.bat.com). This Half-Yearly Report provides updated information regarding the business activities for the six months to 30 June 2014 and of the financial position, cash flow and liquidity position at 30 June 2014.

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

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

## POST BALANCE SHEET EVENTS

On 15 July 2014, the Group announced that it has agreed to invest US\$4.7 billion as part of Reynolds American's proposed acquisition of Lorillard enabling British American Tobacco to maintain its 42% equity position in the enlarged business. The investment is contingent upon the completion of Reynolds American's acquisition of Lorillard. The proposed acquisition is subject to a number of regulatory approvals in the USA and the other parties' shareholder approvals and is anticipated to be completed in the first half of 2015. The Group will be subscribing for new shares in Reynolds American with funding from existing resources and debt.

British American Tobacco will suspend its £1.5 billion share buy-back programme with effect from 30 July 2014.

In addition, the Group and Reynolds American have agreed in principle to expand their existing cooperation to encompass the research, development, innovation, intellectual property and commercialisation of each other's next-generation vapour and tobacco heating products.

## DIRECTORS' RESPONSIBILITY STATEMENT

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

The Directors of British American Tobacco p.l.c. are as listed on pages 46 and 47 in the British American Tobacco Annual Report for the year ended 31 December 2013 with the exception of John Daly who retired as a Director on 6 April 2014 and Anthony Ruys who retired as a Director at the conclusion of the Annual General Meeting on 30 April 2014.

Details of all the current Directors of British American Tobacco p.l.c. are maintained on [www.bat.com](http://www.bat.com).

For and on behalf of the Board of Directors:

Richard Burrows  
Chairman  
29 July 2014

Ben Stevens  
Finance Director and Chief Information Officer

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## ENQUIRIES:

### INVESTOR RELATIONS:

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Rachael Brierley      020 7845 1519  
Sabina Marshman      020 7845 1781

### PRESS OFFICE:

Will Hill/Annie Brown      020 7845 2888

### Webcast and Conference Call

A live webcast of the results is available via [www.bat.com/ir](http://www.bat.com/ir).

If you wish to listen to the presentation via a conference call facility please use the dial in details below:

Dial in number +44 (0) 20 3139 4830

Please quote Passcode: 6961450#

### Conference Call Playback Facility

A replay of the conference call will also be available from 1:00 p.m. for 48 hours.

Dial in number: +44 (0) 20 3426 2807

Please quote passcode: 636263#

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

### **Report on the condensed consolidated financial information**

#### **Our conclusion**

We have reviewed the condensed consolidated financial information, defined below, in the Half-Yearly Report of British American Tobacco Plc for the six months ended 30 June 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

#### **What we have reviewed**

The condensed consolidated financial information, which is prepared by British American Tobacco Plc, comprises:

- the Group balance sheet as at 30 June 2014;
- the Group income statement and Group statement of comprehensive income for the period then ended;
- the Group cash flow statement for the period then ended;
- the Group statement of changes in equity for the period then ended; and
- the explanatory notes to the condensed consolidated financial information.

As disclosed in page 20, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated financial information included in the Half-Yearly Report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

#### **What a review of condensed consolidated financial information involves**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Half-Yearly Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial information.

**Responsibilities for the condensed consolidated financial information and the review**

**Our responsibilities and those of the directors**

The Half-Yearly Report, including the condensed consolidated financial information, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Half-Yearly Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the company a conclusion on the condensed consolidated financial information in the Half-Yearly Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP  
Chartered Accountants  
1 Embankment Place  
London  
29 July 2014

## GROUP INCOME STATEMENT - unaudited

	<u>6 months to</u>		Year to
	<b>30.6.14</b>	30.6.13	31.12.13
	<b>£m</b>	£m	£m
Gross turnover (including duty, excise and other taxes of £13,590 million (30.6.13: £15,125 million; 31.12.13: £30,925 million))	<b>20,388</b>	22,697	46,185
<b>Revenue</b>	<b>6,798</b>	7,572	15,260
Raw materials and consumables used	<b>(1,498)</b>	(1,678)	(3,348)
Changes in inventories of finished goods and work in progress	<b>35</b>	61	105
Employee benefit costs	<b>(1,062)</b>	(1,152)	(2,384)
Depreciation, amortisation and impairment costs	<b>(234)</b>	(253)	(477)
Other operating income	<b>93</b>	91	302
Other operating expenses	<b>(1,674)</b>	(1,834)	(3,932)
<b>Profit from operations</b>	<b>2,458</b>	2,807	5,526
Analysed as:			
– adjusted profit from operations	<b>2,665</b>	2,944	5,820
– restructuring and integration costs	<b>(179)</b>	(97)	(246)
– amortisation of trademarks and similar intangibles	<b>(28)</b>	(40)	(74)
– gain on deemed partial disposal of a trademark	<b>-</b>	-	26
	<b>2,458</b>	2,807	5,526
Net finance costs	<b>(208)</b>	(241)	(466)
Finance income	<b>40</b>	11	66
Finance costs	<b>(248)</b>	(252)	(532)
Share of post-tax results of associates and joint ventures	<b>364</b>	425	739
Analysed as:			
– adjusted share of post-tax results of associates and joint ventures	<b>349</b>	368	723
– issue of shares and change in shareholding	<b>16</b>	27	22
– restructuring and integration costs	<b>5</b>	(2)	(4)
– other (see page 25)	<b>(6)</b>	32	(2)
	<b>364</b>	425	739
<b>Profit before taxation</b>	<b>2,614</b>	2,991	5,799
Taxation on ordinary activities	<b>(728)</b>	(803)	(1,600)
<b>Profit for the period</b>	<b>1,886</b>	2,188	4,199
<b>Attributable to:</b>			
Owners of the parent	<b>1,747</b>	2,040	3,904
Non-controlling interests	<b>139</b>	148	295
	<b>1,886</b>	2,188	4,199
<b>Earnings per share</b>			
Basic	<b>93.3p</b>	106.6p	205.4p
Diluted	<b>93.1p</b>	106.1p	204.6p
Adjusted diluted	<b>101.8p</b>	109.1p	216.6p

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

The accompanying notes on pages 8 and 20 to 36 form an integral part of this condensed consolidated financial information.

## GROUP STATEMENT OF COMPREHENSIVE INCOME - unaudited

	6 months to		Year to
	30.6.14	30.6.13	31.12.13
	£m	£m	£m
<b>Profit for the period (page 13)</b>	<b>1,886</b>	2,188	4,199
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>	<b>(174)</b>	(103)	(1,025)
Differences on exchange			
– subsidiaries	<b>(194)</b>	(97)	(972)
– associates	<b>(54)</b>	97	(141)
Cash flow hedges			
– net fair value (losses)/gains	<b>(20)</b>	99	94
– reclassified and reported in profit for the period	<b>(7)</b>	(47)	(49)
– reclassified and reported in net assets	<b>7</b>	6	(1)
Available-for-sale investments			
– net fair value gains/(losses)	<b>7</b>	(11)	(7)
Net investment hedges			
– net fair value gains/(losses)	<b>39</b>	(81)	89
– differences on exchange on borrowings	<b>30</b>	(50)	(25)
Tax on items that may be reclassified	<b>18</b>	(19)	(13)
<b>Items that will not be reclassified subsequently to profit or loss:</b>	<b>(110)</b>	195	355
Retirement benefit schemes			
– net actuarial (losses)/gains in respect of subsidiaries	<b>(141)</b>	200	308
– surplus recognition and minimum funding obligations in respect of subsidiaries	<b>1</b>	(49)	(5)
– actuarial (losses)/gains in respect of associates net of tax	<b>(4)</b>	55	90
Tax on items that will not be reclassified	<b>34</b>	(11)	(38)
<b>Total other comprehensive income for the period, net of tax</b>	<b>(284)</b>	92	(670)
<b>Total comprehensive income for the period, net of tax</b>	<b>1,602</b>	2,280	3,529
<b>Attributable to:</b>			
Owners of the parent	<b>1,464</b>	2,122	3,272
Non-controlling interests	<b>138</b>	158	257
	<b>1,602</b>	2,280	3,529

The accompanying notes on pages 8 and 20 to 36 form an integral part of this condensed consolidated financial information.

## GROUP STATEMENT OF CHANGES IN EQUITY - unaudited

At 30 June 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
<b>Balance at 1 January 2014</b>	<b>507</b>	<b>3,919</b>	<b>(190)</b>	<b>2,398</b>	<b>6,634</b>	<b>301</b>	<b>6,935</b>
Total comprehensive income for the period (page 14)	-	-	(170)	1,634	1,464	138	1,602
Profit for the period (page 13)	-	-	-	1,747	1,747	139	1,886
Other comprehensive income for the period (page 14)	-	-	(170)	(113)	(283)	(1)	(284)
Employee share options							
– value of employee services	-	-	-	29	29	-	29
– proceeds from shares issued	-	3	-	1	4	-	4
Dividends and other appropriations							
– ordinary shares	-	-	-	(1,831)	(1,831)	-	(1,831)
– to non-controlling interests	-	-	-	-	-	(146)	(146)
Purchase of own shares							
– held in employee share ownership trusts	-	-	-	(50)	(50)	-	(50)
– share buy-back programme	-	-	-	(799)	(799)	-	(799)
Non-controlling interests – capital injection	-	-	-	-	-	3	3
Other movements	-	-	-	4	4	-	4
<b>Balance at 30 June 2014</b>	<b>507</b>	<b>3,922</b>	<b>(360)</b>	<b>1,386</b>	<b>5,455</b>	<b>296</b>	<b>5,751</b>

At 30 June 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
<b>Balance at 1 January 2013</b>	<b>507</b>	<b>3,916</b>	<b>796</b>	<b>2,253</b>	<b>7,472</b>	<b>307</b>	<b>7,779</b>
Total comprehensive income for the period (page 14)	-	-	(108)	2,230	2,122	158	2,280
Profit for the period (page 13)	-	-	-	2,040	2,040	148	2,188
Other comprehensive income for the period (page 14)	-	-	(108)	190	82	10	92
Employee share options							
– value of employee services	-	-	-	40	40	-	40
– proceeds from shares issued	-	3	-	1	4	-	4
Dividends and other appropriations							
– ordinary shares	-	-	-	(1,765)	(1,765)	-	(1,765)
– to non-controlling interests	-	-	-	-	-	(157)	(157)
Purchase of own shares							
– held in employee share ownership trusts	-	-	-	(75)	(75)	-	(75)
– share buy-back programme	-	-	-	(845)	(845)	-	(845)
Other movements	-	-	-	5	5	-	5
<b>Balance at 30 June 2013</b>	<b>507</b>	<b>3,919</b>	<b>688</b>	<b>1,844</b>	<b>6,958</b>	<b>308</b>	<b>7,266</b>



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

At 31 December 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 14)	-	-	(986)	4,258	3,272	257	3,529
Profit for the year (page 13)	-	-	-	3,904	3,904	295	4,199
Other comprehensive income for the year (page 14)	-	-	(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 20 to 36 form an integral part of this condensed consolidated financial information.

## GROUP BALANCE SHEET - unaudited

	30.6.14 £m	30.6.13 £m	31.12.13 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	10,932	11,924	11,205
Property, plant and equipment	3,042	3,226	3,156
Investments in associates and joint ventures	2,334	2,588	2,299
Retirement benefit assets	88	80	135
Deferred tax assets	272	282	248
Trade and other receivables	187	230	171
Available-for-sale investments	35	40	36
Derivative financial instruments	159	198	113
<b>Total non-current assets</b>	<b>17,049</b>	<b>18,568</b>	<b>17,363</b>
<b>Current assets</b>			
Inventories	4,030	4,046	4,042
Income tax receivable	84	80	95
Trade and other receivables	2,601	3,019	2,876
Available-for-sale investments	42	46	54
Derivative financial instruments	260	323	312
Cash and cash equivalents	1,580	1,726	2,106
	<b>8,597</b>	<b>9,240</b>	<b>9,485</b>
Assets classified as held-for-sale	32	59	33
<b>Total current assets</b>	<b>8,629</b>	<b>9,299</b>	<b>9,518</b>
<b>Total assets</b>	<b>25,678</b>	<b>27,867</b>	<b>26,881</b>

The accompanying notes on pages 8 and 20 to 36 form an integral part of this condensed consolidated financial information.

**GROUP BALANCE SHEET - unaudited cont...**

	<b>30.6.14</b>	30.6.13	31.12.13
	<b>£m</b>	£m	£m
<b>Equity</b>			
<b>Capital and reserves</b>			
Share capital	507	507	507
Share premium, capital redemption and merger reserves	3,922	3,919	3,919
Other reserves	(360)	688	(190)
Retained earnings	1,386	1,844	2,398
Owners of the parent	<u>5,455</u>	<u>6,958</u>	<u>6,634</u>
after deducting			
– cost of treasury shares	<u>(5,100)</u>	<u>(3,673)</u>	<u>(4,325)</u>
Non-controlling interests	<u>296</u>	<u>308</u>	<u>301</u>
<b>Total equity</b>	<u><b>5,751</b></u>	<u><b>7,266</b></u>	<u><b>6,935</b></u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	9,029	10,147	9,716
Retirement benefit liabilities	616	877	632
Deferred tax liabilities	479	548	514
Other provisions for liabilities and charges	380	393	387
Trade and other payables	130	155	131
Derivative financial instruments	<u>114</u>	<u>137</u>	<u>130</u>
<b>Total non-current liabilities</b>	<u><b>10,748</b></u>	<u><b>12,257</b></u>	<u><b>11,510</b></u>
<b>Current liabilities</b>			
Borrowings	3,685	2,307	1,980
Income tax payable	486	429	487
Other provisions for liabilities and charges	342	447	194
Trade and other payables	4,617	4,999	5,741
Derivative financial instruments	<u>49</u>	<u>162</u>	<u>34</u>
<b>Total current liabilities</b>	<u><b>9,179</b></u>	<u><b>8,344</b></u>	<u><b>8,436</b></u>
<b>Total equity and liabilities</b>	<u><u><b>25,678</b></u></u>	<u><u><b>27,867</b></u></u>	<u><u><b>26,881</b></u></u>

The accompanying notes on pages 8 and 20 to 36 form an integral part of this condensed consolidated financial information.

## GROUP CASH FLOW STATEMENT - unaudited

	6 months to		Year to
	30.6.14	30.6.13	31.12.13
	£m	£m	£m
<b>Cash flows from operating activities</b>			
Cash generated from operations (page 28)	1,702	1,867	5,366
Dividends received from associates	179	182	510
Tax paid	(711)	(730)	(1,440)
<b>Net cash generated from operating activities</b>	<b>1,170</b>	<b>1,319</b>	<b>4,436</b>
<b>Cash flows from investing activities</b>			
Interest received	33	26	70
Dividends received from investments	2	1	2
Purchases of property, plant and equipment	(171)	(151)	(574)
Proceeds on disposal of property, plant and equipment	10	20	173
Purchases of intangibles	(106)	(59)	(147)
Purchases and proceeds on disposals of investments	8	(19)	(32)
Proceeds from associate's share buy-back	93	110	189
Purchase of subsidiaries	-	(12)	(16)
<b>Net cash used in investing activities</b>	<b>(131)</b>	<b>(84)</b>	<b>(335)</b>
<b>Cash flows from financing activities</b>			
Interest paid	(333)	(274)	(570)
Interest element of finance lease rental payments	-	-	(1)
Capital element of finance lease rental payments	(1)	(2)	(2)
Proceeds from issue of shares to owners of the parent	3	3	3
Proceeds from the exercise of options over own shares held in employee share ownership trusts	1	1	1
Proceeds from increases in and new borrowings	1,503	1,486	2,428
Movements relating to derivative financial instruments	110	(76)	54
Purchases of own shares	(614)	(612)	(1,509)
Purchases of own shares held in employee share ownership trusts	(50)	(75)	(74)
Reductions in and repayments of borrowings	(160)	(238)	(1,421)
Dividends paid to owners of the parent	(1,831)	(1,765)	(2,611)
Non-controlling interests – capital injection	4	-	-
Dividends paid to non-controlling interests	(143)	(154)	(265)
<b>Net cash used in financing activities</b>	<b>(1,511)</b>	<b>(1,706)</b>	<b>(3,967)</b>
<b>Net cash flows (used in)/generated from operating, investing and financing activities</b>	<b>(472)</b>	<b>(471)</b>	<b>134</b>
Differences on exchange	4	(12)	(197)
<b>Decrease in net cash and cash equivalents in the period</b>	<b>(468)</b>	<b>(483)</b>	<b>(63)</b>
Net cash and cash equivalents at 1 January	1,776	1,839	1,839
<b>Net cash and cash equivalents at period end</b>	<b>1,308</b>	<b>1,356</b>	<b>1,776</b>

The accompanying notes on pages 8 and 20 to 36 form an integral part of this condensed consolidated financial information.

## **ACCOUNTING POLICIES AND BASIS OF PREPARATION**

The condensed consolidated financial information comprises the unaudited interim financial information for the six months to 30 June 2014 and 30 June 2013, together with the audited results for the year ended 31 December 2013. This condensed consolidated financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union and the Disclosure and Transparency Rules issued by the Financial Conduct Authority. The condensed consolidated financial information is unaudited but has been reviewed by the auditors and their review report is set out on page 11.

The condensed consolidated financial information does not constitute statutory accounts within the meaning of Section 434 of the UK Companies Act 2006 and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2013, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The annual consolidated financial statements for 2013 represent the statutory accounts for that year and have been filed with the Registrar of Companies. The auditors' report on those statements was unqualified and did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

This condensed consolidated financial information has been prepared under the historical cost convention, except in respect of certain financial instruments, and on a basis consistent with the IFRS accounting policies as set out in the Annual Report for the year ended 31 December 2013.

The preparation of this condensed consolidated financial information requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the date of this condensed consolidated financial information. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management's best judgement at the date of the condensed consolidated financial information. The key estimates and assumptions were the same as those that applied to the consolidated financial information for the year ended 31 December 2013, apart from updating the assumptions used to determine the carrying value of liabilities for retirement benefit schemes. In the future, actual experience may deviate from these estimates and assumptions, which could affect these condensed consolidated financial information as the original estimates and assumptions are modified, as appropriate, in the period in which the circumstances change.

## NON-GAAP MEASURES

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

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

All adjustments to profit from operations and diluted earnings per share are explained in this announcement. See pages 24 to 25 and page 30.

The Management Board, as the chief operating decision maker, reviews current and prior year adjusted segmental income statement information of subsidiaries, joint operations and associates and joint ventures at constant rates of exchange which provides an approximate guide to performance in the current year had they been translated at last year's rate of exchange. The constant rate comparison provided for reporting segment information is based on a retranslation, at prior year exchange rates, of the current year results of the Group, including inter company royalties payable in foreign currency to UK entities. Other than in exceptional circumstances it does not adjust for the normal transactional gains and losses in operations which are generated by exchange movements. As an additional measure to indicate the impact of the exchange rate movement on the Group results, the principal measure of adjusted diluted earnings per share is also shown at constant rates of exchange. See page 23.

In the presentation of financial information, the Group also uses another measure, organic growth, to analyse underlying business performance. Organic growth is the growth after adjusting for mergers and acquisitions and discontinued activities. Adjustments would be made to current and prior year numbers, based on the 2013 Group position but for the six months to 30 June 2014 no adjustments are necessary.

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 26 and 27. 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 30.

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

### REVENUE

30 June 2014					
	Reported revenue £m	Impact of exchange £m	Revenue @ CC(2) £m	Organic adjustments(3) £m	Organic revenue @ CC(2) £m
Asia-Pacific	1,932	284	2,216	-	2,216
Americas	1,415	313	1,728	-	1,728
Western Europe	1,583	68	1,651	-	1,651
EEMEA	1,868	317	2,185	-	2,185
<b>Total</b>	<b>6,798</b>	<b>982</b>	<b>7,780</b>	<b>-</b>	<b>7,780</b>

30 June 2013			
	Reported revenue £m	Organic adjustments(3) £m	Organic revenue £m
Asia-Pacific	2,108	-	2,108
Americas	1,650	-	1,650
Western Europe	1,714	-	1,714
EEMEA	2,100	-	2,100
<b>Total</b>	<b>7,572</b>	<b>-</b>	<b>7,572</b>

### PROFIT FROM OPERATIONS

30 June 2014							
	Reported PFO(1) £m	Adjusting items £m	Adjusted PFO(1) £m	Impact of exchange £m	Adjusted PFO(1) @ CC(2) £m	Organic adjustments(3) £m	Organic Adjusted PFO(1) @ CC(2) £m
Asia-Pacific	739	62	801	125	926	-	926
Americas	596	36	632	127	759	-	759
Western Europe	463	74	537	25	562	-	562
EEMEA	660	35	695	124	819	-	819
<b>Total</b>	<b>2,458</b>	<b>207</b>	<b>2,665</b>	<b>401</b>	<b>3,066</b>	<b>-</b>	<b>3,066</b>

30 June 2013						
	Reported PFO(1) £m	Adjusting items £m	Adjusted PFO(1) £m	Organic Adjustments(3) £m	Organic Adjusted PFO(1) £m	
Asia-Pacific	834	41	875	-	875	
Americas	711	21	732	-	732	
Western Europe	521	52	573	-	573	
EEMEA	741	23	764	-	764	
<b>Total</b>	<b>2,807</b>	<b>137</b>	<b>2,944</b>	<b>-</b>	<b>2,944</b>	

## Analysis of revenue, profit from operations and diluted earnings per share cont...

### DILUTED EARNINGS PER SHARE

	30 June 2014				
	Reported £m	Adjusting items £m	Adjusted £m	Impact of exchange £m	Adjusted @ CC(2) £m
Profit from operations	2,458	207	2,665	401	3,066
Net finance costs	(208)	-	(208)	(18)	(226)
Associates and joint ventures	364	(15)	349	44	393
Profit before tax	2,614	192	2,806	427	3,233
Taxation	(728)	(27)	(755)	(105)	(860)
Non controlling interest	(139)	(2)	(141)	(23)	(164)
Profit attributable to shareholders	1,747	163	1,910	299	2,209
Diluted number of shares (million)	1,876		1,876		1,876
Diluted earnings per share (pence)	93.1		101.8		117.8

	30 June 2013		
	Reported £m	Adjusting items £m	Adjusted £m
Profit from operations	2,807	137	2,944
Net finance costs	(241)	-	(241)
Associates and joint ventures	425	(57)	368
Profit before tax	2,991	80	3,071
Taxation	(803)	(22)	(825)
Non controlling interest	(148)	(2)	(150)
Profit attributable to shareholders	2,040	56	2,096
Diluted number of shares (million)	1,922		1,922
Diluted earnings per share (pence)	106.1		109.1

#### Notes:

- (1) PFO: Profit from operations
- (2) CC: Constant currencies
- (3) Organic adjustments: No organic adjustments are required for events in 2014.



## ADJUSTING ITEMS INCLUDED IN PROFIT FROM OPERATIONS

Adjusting items are significant items in the profit from operations which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance. See page 21. These items are separately disclosed as memorandum information on the face of the income statement and in the segmental analyses.

### (a) Restructuring and integration costs

Restructuring costs reflect the costs incurred as a result of initiatives to improve the effectiveness and the efficiency of the Group as a globally integrated enterprise, including the relevant operating costs of implementing the new operating model. These initiatives also include a review of the Group's manufacturing operations, supply chain, overheads and indirect costs, organisational structure and systems and software used. The costs of these initiatives together with the costs of integrating acquired businesses into existing operations, including acquisition costs, are included in profit from operations under the following headings:

	6 months to		Year to
	30.6.14	30.6.13	31.12.13
	£m	£m	£m
Employee benefit costs	89	41	140
Depreciation and impairment costs	27	14	11
Other operating expenses	63	42	161
Other operating income	-	-	(66)
Total	179	97	246

Restructuring and integration costs in the six months to 30 June 2014 principally relate to the restructuring initiatives directly related to implementation of a new operating model and the cost of separation packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group. The costs also cover the continuation of factory closures and downsizing activities in Australia and the Democratic Republic of the Congo, and restructurings in Argentina, Canada, Switzerland and Germany.

Restructuring and integration costs in the six months to 30 June 2013 principally related to the restructuring initiatives directly related to implementation of a new operating model and the continuation of factory closures and downsizing activities in Australia and Russia, and restructurings in Argentina and Canada. The costs also covered separation packages in respect of permanent headcount reductions and permanent employee benefit reductions in the Group.

For the year ended 31 December 2013, restructuring and integration costs principally included the activities referred to in respect of the six months to 30 June 2013. In addition, the costs also covered restructurings in the Democratic Republic of the Congo, Switzerland and Germany.

Other operating income in 2013 included 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 and CN Creative Limited, as well as the creation of CTBAT International Ltd, resulted in the capitalisation of trademarks and similar intangibles which are amortised over their expected useful lives, which do not exceed 20 years. The amortisation charge of £28 million is included in depreciation, amortisation and impairment costs in the profit from operations for the six months to 30 June 2014 (30 June 2013: £40 million). For the year to 31 December 2013, the amortisation charge was £74 million.

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

The contribution of the State Express 555 brand to CTBAT International Ltd in 2013 is accounted for at fair value in the arrangement. For the year ended 31 December 2013, this resulted in a £26 million gain on deemed partial disposal of a trademark which is included in other operating income but has been treated as an adjusting item.

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

The share of post-tax results of associates and joint ventures is after the following adjusting items which are excluded from the calculation of adjusted earnings per share as set out on page 30.

### **In the six months to 30 June 2014:**

The Group's interest in ITC decreased from 30.47% to 30.34% 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 £16 million, which is treated as a deemed partial disposal and included in the income statement.

Reynolds American recognised a net gain from discontinued activities of US\$25 million, reduced by restructuring activities of US\$5 million, resulting in a net gain of US\$20 million. The Group's share of this net gain amounted to £5 million (net of tax).

Reynolds American has also recognised amounts which have been combined in the table of adjusting items in the Group income statement and are shown as "other". This includes costs of US\$45 million in respect of a number of Engle progeny lawsuits, the Group's share of which is £11 million (net of tax). In June 2014, a further two states entered into a settlement agreement in relation to disputed NPM Adjustment Claims for the years 2003 to 2012. Under the settlement Reynolds expects to receive more than US\$170 million in MSA credit to be applied over 5 years. During the first six months of 2014, Reynolds American recognised income of US\$21 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 would be accounted for in the applicable year and will not be treated as adjustable items.

### **In the six months to 30 June 2013:**

The Group's interest in ITC decreased from 30.72% to 30.54% 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 £27 million, which is treated as a deemed partial disposal and included in the income statement.

Reynolds American recognised restructuring charges of US\$8 million in respect of its overall activities. The Group's share of these charges amounted to £2 million (net of tax).

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

### **For the year ended 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 stock option scheme. The issue of shares and change in the Group's share of ITC resulted in a gain of £22 million, which was treated as a deemed partial disposal and included in the income statement.

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

Reynolds American also recognised amounts which have been combined in the table of adjusting items in the Group income statement and shown as "other". These mainly consist of costs of US\$18 million in

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

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). In addition, as a result of the final agreement on MSA activities described above Reynolds American recognised income of US\$219 million related to its 2012 liability, the Group's share of which amounted to £33 million (net of tax).

## CASH FLOW AND NET DEBT MOVEMENTS

### (a) Alternative cash flow

The IFRS cash flow statement on page 19 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.

	6 months to		Year to
	30.6.14	30.6.13	31.12.13
	£m	£m	£m
Adjusted profit from operations (page 13)	2,665	2,944	5,820
Depreciation, amortisation and impairment	179	199	392
Other non-cash items in operating profit	17	42	30
Profit from operations before depreciation and impairment	2,861	3,185	6,242
Increase in working capital	(916)	(1,156)	(375)
Net capital expenditure	(263)	(189)	(547)
Gross capital expenditure	(273)	(209)	(720)
Sale of fixed assets	10	20	173
<b>Operating cash flow</b>	<b>1,682</b>	<b>1,840</b>	<b>5,320</b>
Pension funds' shortfall funding net of one-off receipts	(70)	(70)	(190)
Net interest paid	(288)	(274)	(443)
Tax paid	(711)	(730)	(1,440)
Dividends paid to non-controlling interests	(143)	(154)	(265)
<b>Cash generated from operations</b>	<b>470</b>	<b>612</b>	<b>2,982</b>
Restructuring costs	(175)	(92)	(310)
Dividends and other appropriations from associates	272	292	699
<b>Free cash flow</b>	<b>567</b>	<b>812</b>	<b>3,371</b>
Dividends paid to shareholders	(1,831)	(1,765)	(2,611)
Share buy-back (including transaction costs)	(614)	(612)	(1,509)
Net investment activities	(5)	(17)	(19)
Net flow from share schemes and other	69	(98)	(79)
<b>Net cash flow</b>	<b>(1,814)</b>	<b>(1,680)</b>	<b>(847)</b>
<b>External movements on net debt</b>			
Exchange rate effects*	316	(427)	(163)
Change in accrued interest and other	52	32	(32)
Change in net debt	(1,446)	(2,075)	(1,042)
Opening net debt	(9,515)	(8,473)	(8,473)
<b>Closing net debt</b>	<b>(10,961)</b>	<b>(10,548)</b>	<b>(9,515)</b>

\* Including movements in respect of debt related derivatives.

## Cash flow and net debt movements cont...

Operating cash flow decreased by £158 million or 9% to £1,682 million, primarily reflecting the lower adjusted profit from operations due to exchange rate movements, and higher net capital expenditure, partially offset by working capital movements. The higher cash outflows in respect of net interest paid and restructuring costs, together with lower dividends and other appropriations from associates (due to the Reynolds American share buy-back being £17 million lower at £93 million) were partially offset by lower dividends paid to non-controlling interests and lower tax paid. These led to the Group's free cash flow decreasing by £245 million or 30% to £567 million.

The ratio of free cash flow per share to adjusted diluted earnings per share was 30% (2013: 39%).

Below free cash flow, the principal cash outflows for the six months to 30 June 2014 comprise the payment of the prior year final dividend which was £66 million higher at £1,831 million, as well as an outflow of £614 million due to the continuation of the on-market share buy-back programme in 2014 (2013: £612 million), including transaction costs.

During 2014, the cash outflow from net investing activities was £5 million. In the six months to 30 June 2013, the cash outflow was mainly for the acquisition of CN Creative and amounted to £17 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 £1,814 million (2013: £1,680 million). After taking account of other changes, especially exchange rate movements, total net debt was £10,961 million at 30 June 2014 (30 June 2013: £10,548 million and 31 December 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. An analysis of net debt is as follows:

	30.6.14	30.6.13	31.12.13
	£m	£m	£m
<b>Net debt due within one year:</b>			
Borrowings	3,685	2,307	1,980
Related derivatives	(87)	(107)	(55)
Cash and cash equivalents	(1,580)	(1,726)	(2,106)
Current available-for-sale investments	(42)	(46)	(54)
	<u>1,976</u>	<u>428</u>	<u>(235)</u>
<b>Net debt due beyond one year:</b>			
Borrowings	9,029	10,147	9,716
Related derivatives	(44)	(27)	34
	<u>8,985</u>	<u>10,120</u>	<u>9,750</u>
<b>Total net debt</b>	<u>10,961</u>	<u>10,548</u>	<u>9,515</u>

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 19 include the following items:

	6 months to		Year to
	30.6.14	30.6.13	31.12.13
		£m	£m
Profit from operations	<b>2,458</b>	2,807	5,526
Adjustments for:			
Amortisation of trademarks and similar intangibles	<b>28</b>	40	74
Amortisation of other intangible assets	<b>27</b>	27	48
Gain on deemed partial disposal of a trademark	-	-	(26)
Depreciation and impairment of property, plant and equipment	<b>179</b>	186	355
(Increase)/decrease in inventories	<b>(110)</b>	62	(386)
Decrease/(increase) in trade and other receivables	<b>149</b>	(240)	(246)
(Decrease)/increase in trade and other payables	<b>(932)</b>	(943)	311
Decrease in net retirement benefit liabilities	<b>(100)</b>	(117)	(222)
(Decrease)/increase in provisions for liabilities and charges	<b>(15)</b>	6	(19)
Other non-cash items	<b>18</b>	39	(49)
Cash generated from operations	<b><u>1,702</u></b>	<b><u>1,867</u></b>	<b><u>5,366</u></b>

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

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

	30.6.14	30.6.13	31.12.13
	£m	£m	£m
Cash and cash equivalents per balance sheet	<b>1,580</b>	1,726	2,106
Accrued interest	<b>(2)</b>	-	(1)
Overdrafts	<b>(270)</b>	(370)	(329)
Net cash and cash equivalents	<b><u>1,308</u></b>	<b><u>1,356</u></b>	<b><u>1,776</u></b>

### (e) Liquidity

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

The Group has a target average centrally managed debt maturity of at least 5 years with no more than 20 per cent of centrally managed debt maturing in a single rolling year. As at 30 June 2014, the average centrally managed debt maturity was 7.0 years (30 June 2013: 6.8 years; 31 December 2013: 7.2 years) and the highest proportion of centrally managed debt maturing in a single rolling year was 16.8 per cent (30 June 2013: 18.2 per cent; 31 December 2013: 18.3 per cent).

It is Group policy that short-term sources of funds (including drawings under both the Group US\$2 billion commercial paper programme, and the Group £1 billion euro commercial paper (ECP) programme) are backed by undrawn committed lines of credit and cash. At 30 June 2014, £795 million of commercial paper was outstanding (30 June 2013 £171 million; 31 December 2013: £521 million).

## Cash flow and net debt movements cont...

In May 2014, the Group 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 30 June 2014.

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.

During the period to 30 June 2014, the Group's subsidiary in Brazil received proceeds of £213 million (2013 to 30 June 2013: £323 million; full year: £399 million) from short-term borrowings in respect of advance payments on leaf export contracts and repaid £49 million (30 June 2013: £172 million; 31 December 2013: £436 million).

In December 2013 a maturing £152 million bond was repaid and this repayment was financed from Group cash balances.

In November 2013 a maturing US\$300 million bond was repaid and this repayment was financed from Group cash balances. In September 2013 the Group issued a £650 million bond with a maturity of 2026. In July 2013 the Group repaid a €519 million bond and this repayment was financed from Group cash balances.

In March 2013, the Group issued a US\$300 million bond with a maturity of 2016 and a €650 million bond with a maturity of 2025.

## EARNINGS PER SHARE

Adjusted diluted earnings per share decreased by 7% to 101.8p (2013: 109.1p), principally as a result of the lower profit from operations, due to adverse exchange rate movements, the lower share of post-tax results of associates and joint ventures, partially offset by the impact of the share buy-back programme. Basic earnings per share were 12% lower at 93.3p (2013: 106.6p).

	<u>6 months to</u>		Year to
	<b>30.6.14</b>	30.6.13	31.12.13
	<b>pence</b>	pence	pence
Earnings per share			
- basic	<b>93.3</b>	106.6	205.4
- diluted	<b>93.1</b>	106.1	204.6
Adjusted earnings per share			
- basic	<b>102.0</b>	109.5	217.4
- diluted	<b>101.8</b>	109.1	216.6
Headline earnings per share			
- basic	<b>93.1</b>	105.7	201.1
- diluted	<b>92.9</b>	105.3	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** are calculated by taking the following adjustments into account (see page 24 and 25):

	<u>6 months to</u>		Year to
	<b>30.6.14</b>	30.6.13	31.12.13
	<b>pence</b>	pence	pence
Unadjusted diluted earnings per share	<b>93.1</b>	106.1	204.6
Effect of restructuring and integration costs	<b>8.3</b>	4.3	11.0
Effect of amortisation of trademarks and similar intangibles	<b>1.2</b>	1.7	3.2
Gain on deemed partial disposal of a trademark	-	-	(1.4)
Effect of associates' adjusting items	<b>(0.8)</b>	(3.0)	(0.8)
Adjusted diluted earnings per share	<b>101.8</b>	109.1	216.6

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

	<u>6 months to</u>		Year to
	<b>30.6.14</b>	30.6.13	31.12.13
	<b>pence</b>	pence	pence
Unadjusted diluted earnings per share	93.1	106.1	204.6
Effect of impairment of intangibles and property, plant and equipment	1.1	0.6	1.7
Effect of gains on disposal of property, plant and equipment and held-for-sale assets	(0.5)	-	(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)	(1.4)	(1.1)
Diluted headline earnings per share	<b>92.9</b>	105.3	200.4

The earnings per share are based on:

	<u>30.6.14</u>		<u>30.6.13</u>		<u>31.12.13</u>	
	<b>Earnings</b>	<b>Shares</b>	Earnings	Shares	Earnings	Shares
	<b>£m</b>	<b>m</b>	£m	m	£m	m
Earnings per share						
- basic	<b>1,747</b>	<b>1,872</b>	2,040	1,914	3,904	1,901
- diluted	<b>1,747</b>	<b>1,876</b>	2,040	1,922	3,904	1,908
Adjusted earnings per share						
- basic	<b>1,910</b>	<b>1,872</b>	2,096	1,914	4,133	1,901
- diluted	<b>1,910</b>	<b>1,876</b>	2,096	1,922	4,133	1,908
Headline earnings per share						
- basic	<b>1,742</b>	<b>1,872</b>	2,024	1,914	3,823	1,901
- diluted	<b>1,742</b>	<b>1,876</b>	2,024	1,922	3,823	1,908

## DIVIDENDS

### Declaration

The Board has declared an interim dividend of 47.5 pence per ordinary share of 25p for the six months ended 30 June 2014. The interim dividend will be payable on 30 September 2014 to shareholders registered on either the UK main register or the South Africa branch register on 22 August 2014 (the record date).

### Key Dates and South Africa Branch Register

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

<b>Event</b>	<b>Date 2014</b>
Last Day to Trade (LDT) cum dividend (JSE)	Friday 15 August
Shares commence trading ex dividend (JSE)	Monday 18 August
Shares commence trading ex dividend (LSE)	Wednesday 20 August
Record date (JSE and LSE)	Friday 22 August
Payment date	Tuesday 30 September
No removal requests permitted between the UK main register and the South Africa branch register	Wednesday 30 July to Friday 22 August (inclusive)
No transfers permitted between the UK main register and the South Africa branch register	Monday 18 August to Friday 22 August (inclusive)
No shares may be dematerialised or rematerialised	Monday 18 August to Friday 22 August (inclusive)

As the Group reports in sterling, dividends are declared and payable in sterling except for shareholders on the branch register in South Africa whose dividends are payable in rand. A rate of exchange of £:R = 17.97280 as at 28 July 2014 (the closing rate on that date as quoted by Bloomberg), results in an equivalent interim dividend of 853.70800 SA cents per ordinary share.

### South Africa Branch Register: Dividends Tax Information

South Africa Dividends Tax of 128.05620 SA cents per ordinary share will be withheld from the gross interim dividend paid to shareholders on the South Africa branch register at the rate of 15% unless a shareholder qualifies for an exemption. After Dividends Tax has been withheld, the net dividend will be 725.65180 SA cents per ordinary share.

At the close of business on 28 July 2014 (the latest practicable date prior to the date of the declaration of the interim dividend), British American Tobacco p.l.c. (the "Company") had a total of 1,864,221,767 ordinary shares in issue (excluding treasury shares). The Company held 162,433,317 ordinary shares in treasury giving a total issued share capital of 2,026,655,084 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 interim dividend which is regarded as a 'foreign dividend' for the purposes of the South Africa Dividends Tax.

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

For the avoidance of doubt, Dividends Tax and the information provided above is of only direct application to shareholders on the South Africa branch register. Shareholders on the South Africa branch register should direct any questions regarding the application of Dividends Tax to Computershare Investor Services (Pty) Ltd, contact details for which are given in the 'Corporate Information' section below.



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

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

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

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

### SHARE BUY-BACK PROGRAMME

The Company continued with its approved on-market share buy-back programme with a value of up to £1,500 million for 2014, excluding transaction costs. During the six months to 30 June 2014, 19 million shares were bought at a cost of £632 million, excluding transaction costs of £4 million (30 June 2013: 18 million shares at a cost of £641 million, excluding transaction costs of £4 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.

The purchase of own shares in the Group statement of changes in equity, includes an amount of £163 million (30 June 2013: £200 million) provided for the potential buy-back of shares during July 2014 under an irrevocable non-discretionary contract. On 15 July 2014, the Company announced that it would suspend its share buy-back programme with effect from 30 July 2014.

### RELATED PARTY DISCLOSURES

In the six months to 30 June 2014, there were no material changes in related parties or related party transactions. 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.

## FOREIGN CURRENCIES

The principal exchange rates used were as follows:

	Average			Closing		
	30.6.14	30.6.13	31.12.13	30.6.14	30.6.13	31.12.13
US dollar	1.669	1.544	1.564	1.710	1.517	1.656
Canadian dollar	1.830	1.568	1.612	1.821	1.600	1.760
Euro	1.218	1.176	1.178	1.249	1.167	1.202
South African rand	17.855	14.221	15.099	18.191	15.057	17.347
Brazilian real	3.833	3.139	3.381	3.769	3.351	3.908
Australian dollar	1.825	1.523	1.623	1.812	1.657	1.851
Russian rouble	58.433	47.915	49.853	58.224	49.790	54.424
Japanese yen	171.005	147.400	152.715	173.216	150.661	174.080
Indian rupee	101.454	84.922	91.707	102.839	90.130	102.447

## CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

The Group has contingent liabilities in respect of litigation, taxes and guarantees in various countries. The Group is subject to contingencies pursuant to requirements that it complies with relevant laws, regulations and standards. Failure to comply could result in restrictions in operations, damages, fines, increased tax, increased cost of compliance, interest charges, reputational damage or other sanctions. These matters are inherently difficult to quantify.

In cases where the Group has an obligation as a result of a past event existing at the balance sheet date, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated, a provision will be recognised based on best estimates and management judgment. There are, however, contingent liabilities in respect of litigation, taxes in some countries and guarantees for which no provisions have been made.

While the amounts that may be payable or receivable could be material to the results or cash flows of the Group in the period in which they are recognised, the Board does not expect these amounts to have a material effect on the Group's financial condition.

### Taxes

The Group has exposures in respect of the payment or recovery of a number of taxes. The Group is and has been subject to a number of tax audits covering, amongst others, excise tax, value added taxes, sales taxes, corporate taxes, withholding taxes and payroll taxes.

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

### Group litigation

Group companies, as well as other leading cigarette manufacturers, are defendants in a number of product liability cases. In a number of 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 which could in some cases equal or exceed the amount of the judgment. In any event, with regard to US litigation, the Group has the benefit of the indemnity from R. J. Reynolds Tobacco Company, a wholly-owned subsidiary of Reynolds American Inc. At least in the aggregate, and despite the quality of defences

## **Contingent liabilities and financial commitments cont...**

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

Full details of the litigation against Group companies and tax disputes as at 31 December 2013 are included in the Annual Report for the year ended 31 December 2013. There were no material developments during the six months to 30 June 2014 that would impact on the financial position of the Group.

### **FRANKED INVESTMENT INCOME GROUP LITIGATION ORDER**

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

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

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

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

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

The High Court hearing to determine the application of the ECJ judgment and the quantification mechanics of the claim took place in May and June 2014. The decision of the Court is expected to be delivered in the final quarter of the year and BAT will provide an indication of the value of the claim and the judgment when known.

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.

## FAIR VALUE MEASUREMENTS AND VALUATION PROCESSES

The Group held certain financial instruments at fair value at 30 June 2014.

The definitions and valuation techniques employed for these as at 30 June 2014 are consistent with those used at 31 December 2013 and disclosed in Note 24 on pages 175 to 176 of the 2013 Annual Report:

- Level 1 financial instruments are traded in an active market and fair value is based on quoted prices at the period end.
- Level 2 financial instruments are not traded in an active market, but the fair values are based on quoted market prices, broker/dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments include certain money market securities and most OTC derivatives.
- The fair values of level 3 financial instruments have been determined using a valuation technique where at least one input (which could have a significant effect on the instrument's valuation) is not based on observable market data. The Group's level 3 financial instruments primarily consist of an equity investment in an unquoted entity which is valued using the discounted cash flows of estimated future dividends.

While the carrying values of assets and liabilities at fair value have changed since 31 December 2013, the Group does not consider the movements in value to be significant, and the categorisation of these assets and liabilities in accordance with the disclosure requirements of IFRS 7 has not materially changed. The values of level 1 assets and level 3 assets are not material to the Group and were £18 million and £35 million respectively at 30 June 2014 (30 June 2013: £32 million and £39 million respectively and 31 December 2013: £54 million and £36 million respectively).

Level 2 assets and liabilities are shown below.

	<b>30.6.2014</b>	30.06.2013	31.12.2013
	<b>Level 2</b>	Level 2	Level 2
	<b>£m</b>	£m	£m
<b>Assets at fair value</b>			
Available-for-sale investments	<b>24</b>	15	-
Derivatives relating to			
– interest rate swaps	<b>220</b>	272	121
– cross-currency swaps	<b>18</b>	35	6
– forward foreign currency contracts	<b>181</b>	214	298
<b>Assets at fair value</b>	<b>443</b>	536	425
<b>Liabilities at fair value</b>			
Derivatives relating to			
– interest rate swaps	<b>88</b>	139	63
– cross-currency swaps	<b>25</b>	35	41
– forward foreign currency contracts	<b>50</b>	124	60
– others	-	1	-
<b>Liabilities at fair value</b>	<b>163</b>	299	164

The fair value of borrowings is estimated to be £13,012 million (30 June 2013: £13,440 million and 31 December 2013: £12,701 million) and has been determined using quoted market prices or discounted cash flow analysis. The value of other assets and liabilities held at amortised cost are not materially different from their fair values.

## **DISCLAIMERS**

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

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

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

## **ANNUAL REPORT AND HALF-YEARLY REPORT**

### **Annual Report: Statutory Accounts**

The information for the year ended 31 December 2013 does not constitute statutory accounts as defined in s434 of the Companies Act 2006. A copy of the statutory accounts for that year 2013 has been delivered to the Registrar of Companies. The auditors' report on the 2013 accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006.

### **Half-Yearly Report: Publication**

This Half-Yearly Report is released to the London Stock Exchange and the JSE Limited. It may be viewed and downloaded from our website [www.bat.com](http://www.bat.com).

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

**Nicola Snook**

*Secretary*

*29 July 2014*

## SHAREHOLDER INFORMATION

### FINANCIAL CALENDAR

Tuesday 30 September 2014	Payment date of 2014 interim dividend
Wednesday 22 October 2014	Interim Management Statement
Thursday 26 February 2015	Preliminary Statement 2014

### CALENDAR FOR THE INTERIM DIVIDEND 2014

#### 2014

Wednesday 30 July	Declaration of interim dividend: amount of dividend per ordinary share in both sterling and rand; applicable exchange rate and conversion date – Monday 28 July 2014; plus additional applicable information as required in respect of South Africa Dividends Tax*.
Wednesday 30 July to Friday 22 August	From the commencement of trading on Wednesday 30 July 2014 to Friday 22 August 2014 (inclusive), no removal requests in either direction between the UK main register and the South Africa branch register will be permitted.
Friday 15 August	Last Day to Trade or LDT (JSE)
Monday 18 August to Friday 22 August	From the commencement of trading on Monday 18 August 2014 to Friday 22 August 2014 (inclusive), no transfers between the UK main register and the South Africa branch register will be permitted; no shares may be dematerialised or rematerialised.
Monday 18 August	Ex-dividend date (JSE)
Wednesday 20 August	Ex-dividend date (LSE)
Friday 22 August	Record date (LSE and JSE)
Tuesday 9 September	Last date for receipt of Dividend Reinvestment Plan (DRIP) elections (UK main register only)
Tuesday 30 September	Payment date (sterling and rand)

\* Details of the applicable exchange rate and the South Africa Dividends Tax information can be found under the heading 'Dividends' on page 31.

#### American Depositary Receipts (ADRs)

For holders of ADRs, the record date is Friday 22 August 2014 with a payment date of Friday 3 October 2014.

## **CORPORATE INFORMATION**

### **Premium listing**

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

### **Secondary listing**

JSE (Share Code: BTI)  
Shares are traded in electronic form only and transactions settled electronically through Strate.  
Computershare Investor Services (Pty) Ltd  
PO Box 61051, Marshalltown 2107, South Africa  
tel: 0861 100 925; +27 11 870 8222  
email enquiries: [web.queries@computershare.co.za](mailto: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](mailto:citibank@shareholders-online.com)  
website: [www.citi.com/dr](http://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](mailto:bat@team365.co.uk) or  
Computershare Investor Services (Pty) Ltd in South Africa using the contact details shown above.

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

#### **Registered office**

Globe House  
4 Temple Place  
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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**

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South Africa  
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