

29 July 2015

**BRITISH AMERICAN TOBACCO p.l.c.
HALF-YEAR REPORT TO 30 JUNE 2015**

GOOD PERFORMANCE IN A TOUGH ENVIRONMENT

KEY FINANCIALS Six Months Results - unaudited	2015		2014	Change	
	Current rates	Constant rates		Current rates	Constant rates
Revenue	£6,398m	£6,962m	£6,798m	-5.9%	+2.4%
Adjusted profit from operations*	£2,507m	£2,699m	£2,665m	-6.0%	+1.3%
Profit from operations	£2,347m	£2,533m	£2,458m	-4.6%	+3.0%
Adjusted diluted earnings per share*	100.2p	105.8p	101.8p	-1.6%	+3.9%
Basic earnings per share	142.4p		93.3p	+52.6%	
Interim dividend per share	49.4p		47.5p	+4.0%	

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

HALF-YEAR HIGHLIGHTS

- Group revenue was up by 2.4% at constant rates of exchange, driven by good pricing. Reported revenue was 5.9% lower, as a result of adverse exchange rate movements.
- Adjusted Group profit from operations was ahead of prior year by 1.3% at £2,699 million at constant rates of exchange, but would have been significantly higher after adjusting for the effect of transactional foreign exchange. At current rates of exchange, adjusted profit from operations fell by 6.0%.
- Profit from operations, at current rates of exchange, was 4.6% lower at £2,347 million.
- Operating margin, at current rates of exchange, was maintained despite the significant transactional foreign exchange impact.
- Adjusted diluted earnings per share, at constant rates of exchange, was up by 3.9%. At current rates, it was 1.6% lower at 100.2p.
- Basic earnings per share was 52.6% higher at 142.4p (2014: 93.3p), benefiting from gains as a result of the acquisition of Lorillard Inc. by the Group's associate Reynolds American Inc.
- Group cigarette volume was 322 billion, a decline of 2.9% against an estimated industry decline of approximately 3.5%.
- The Group's cigarette market share in its Key Markets¹ continued to grow strongly², driven by the Global Drive Brands which increased volume by 6.0%.
- The Group continued to invest in the future, concluding the previously announced investment of US\$4.7 billion in cash in the enlarged Reynolds American Inc., announcing the proposed €550 million acquisition of TDR, progressing the possible offer for the shares in Souza Cruz not currently owned by the Group and strengthening the pipeline of Next Generation Products.
- The Board has declared an interim dividend of 49.4p, being one third of the 2014 dividend, a 4.0% increase on last year. This will be paid on 30 September 2015.

¹ The Group's Key Markets represent over 70% of the Group's volume

² Key Market offtake share, as independently measured by AC Nielsen

Richard Burrows, Chairman, commenting on the 6 months ended 30 June 2015

"As we anticipated, the first half of the year has been impacted by adverse exchange rate movements and a strong first half volume comparator. The underlying performance of the business remains strong and we are confident that we are on course to deliver an improved second half, leading to another year of good earnings growth at constant rates of exchange. Underscoring our commitment to growing shareholder returns we intend to reflect this good underlying performance with an increase in the full year dividend."

CHIEF EXECUTIVE'S REVIEW

Good underlying performance continues

The business performed well, despite a strong volume comparator and the intensified low price competition in Australia. Adverse foreign exchange rate movements significantly impacted our results. Adjusted profit from operations at constant rates of exchange grew by 1.3%. Excluding the impact of transactional foreign exchange this growth would have been 5.4%.

Cigarette volume was down 2.9% although the consistent growth of GDB volume, higher by 6.0%, demonstrates that our strategy continues to deliver. Underlying volume, excluding one-offs, was down by approximately 2.5%. This is against an industry decline of around 3.5% following significant excise driven price increases in Russia, Australia and South Korea.

Our market share, an important indicator of the underlying strength of our business, grew strongly with corporate share up 40 basis points in the Key Markets and the Global Drive Brands continuing to perform excellently with share up 80 basis points. Pricing in general continued to be strong, with price/mix ahead of last year.

The ongoing focus on our cost base continues to deliver and has meant we were able to mitigate adverse transactional exchange rate effects. As a result, operating margin on a current basis was flat at 39.2% at the half year.

Continuing investment in sustainable growth

On 12 June 2015, the Group completed its investment of US\$4.7 billion in cash to maintain its 42% equity position in the enlarged Reynolds American Inc. as part of its acquisition of Lorillard Inc. This followed the final approval by the relevant US authorities on 8 June 2015.

The Group has also signed an agreement to acquire TDR, the leading independent cigarette manufacturer in Central Europe, for €550 million. This will provide us with the opportunity to significantly grow our business in the region. Final approvals for this deal are expected by October 2015.

We continued to make good progress with the potential public tender offer for the shares in Souza Cruz that the Group does not own. The relevant approvals are expected in Q3 2015, after which the Group will be in a position to formally launch its public tender offer. It is expected that subject to certain conditions, the financial settlement will occur in Q3 2015.

We remain committed to leading in Next Generation Products globally and continued to make good progress on the development and roll out of our portfolio. Our e-cigarette brand, Vype, continues to perform well in the UK market and has been strengthened by the recent launch of an enhanced range of flavours and nicotine strengths for our ePen and eStick devices. In July, we launched an open system, the Vype eTank and its accompanying range of liquids. We continue to make progress on Voke, our nicotine inhalation product licensed as medicine, and expect to launch in the UK around the year end. Additionally, significant progress has been made in developing a range of tobacco heating products, with plans for a test market of one of the platforms in 2015.

On course for another good year

Despite the backdrop of challenging market conditions we continue to deliver for shareholders. An interim dividend of 49.4p, an increase of 4.0%, will be paid on 30 September 2015, being one third of the prior year dividend, and which is in line with the Group's intention to increase the dividend year on year.

Given the strength of our broad portfolio and global reach, I remain confident that, as the impact of the strong comparison base unwinds and the incremental benefits of recent M&A investments start being realised, we are on course to deliver another year of good growth, on a constant currency basis.

Nicandro Durante
28 July 2015

REGIONAL REVIEW

This review presents the underlying performance of the regions and markets, at constant rates of exchange. However, as explained on page 22, the Group does not adjust for transactional gains or losses in profit from operations which are generated by exchange rate movements. The performance also excludes the significant adjusting items, explained on pages 24 and 25.

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

	Adjusted profit from operations			Cigarette volume		
	6 months to			6 months to		Year to
	30.6.15		30.6.14	30.6.15	30.6.14	31.12.14
	Constant rates £m	Current rates £m	£m	Bns	Bns	Bns
Asia-Pacific	781	776	801	103	104	197
Americas	690	622	632	60	63	131
Western Europe	566	519	537	52	52	112
EEMEA	662	590	695	107	112	227
Total	2,699	2,507	2,665	322	331	667
Total tobacco volume				334	344	694

The Group's performance in the first half of 2015 was underpinned by a significant increase in market share, continued growth of the Global Drive Brands and good pricing. However, results were impacted by adverse exchange rate movements, on a transactional and translational level, a strong volume comparator and the difficult pricing and excise environment in Australia.

Revenue in constant currency was 2.4% higher, driven by a price mix of 5.3%, as strong pricing in a number of Key Markets was partly offset by the ongoing price competition in Australia, adverse geographic mix and the growth of the lower priced segment in some markets. At current rates of exchange, revenue decreased by 5.9%, reflecting the adverse effect of currency movements.

Adjusted profit from operations (see page 23), at constant rates of exchange, was ahead of prior year by 1.3% at £2,699 million, and would have been significantly higher when adjusted for the transactional effect of foreign exchange on the cost of items such as leaf, filter tow and wrapping materials. Adjusted operating profit, at current rates of exchange, was 6.0% lower reflecting the foreign exchange headwinds on reported results.

Group cigarette volume from subsidiaries was 322 billion, a 2.9% decrease against the previous year. Industry decline drove lower volume in Russia, Brazil, Ukraine and Vietnam, partially offset by a good volume performance in South Asia, Turkey, Denmark, Kazakhstan, Mexico and Iran. The Group increased market share by 40 basis points in its Key Markets driven by South Korea, Pakistan, Indonesia, Japan, Bangladesh, Mexico, Kazakhstan and Turkey.

Regional review cont...

The Global Drive Brands grew, with total volume up by 6.0%, leading to continued strong share growth. Dunhill volume, higher by 2.4%, was driven mainly by Indonesia and Brazil, offsetting lower volume in South Korea, Malaysia and the GCC. Kent volume was 0.9% lower than prior year as good growth in Iran and Turkey was more than offset by market contraction in Russia, Ukraine and Romania. Lucky Strike volume was up by 2.9%, driven by growth in Belgium, Mexico and France offsetting lower volume in Russia and Italy. Pall Mall grew by 2.8% due to strong performances in Pakistan, Poland, Mexico and Canada, more than offsetting lower volume in Italy, Russia and Australia. Rothmans' strong growth of 36.6% was driven by Russia, Australia, Turkey, Kazakhstan, Italy, and Ukraine.

Other international brands declined by 6.1%, as growth in State Express 555 and Shuang Xi were more than offset by lower volume in Craven A, Peter Stuyvesant and Viceroy, driven by industry market decline in their strongholds.

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

ASIA-PACIFIC

Adjusted profit at constant rates of exchange decreased by £20 million or 2.6%, as strong profit growth in a number of markets including Pakistan, New Zealand, South Korea, and Bangladesh was more than offset by the challenging pricing environment in Australia. Adjusted profit, at current rates of exchange, was down by £25 million at £776 million reflecting the currency headwinds on reported results. Volume was down by 0.7% against 2014 at 103 billion, as increases in Bangladesh and Pakistan were more than offset by lower volume in Vietnam, Indonesia, Australia and Malaysia.

Key Market	Performance at constant rates of exchange
Australia	Rothmans performed well, leading to an increase in overall market share. However, excise led price increases drove market contraction. Profit fell significantly due to lower volume, price competition and down-trading.
Malaysia	Volume declined, driven by a reduction in the total market as a result of tax driven price increases. Profit was lower in line with the volume decline and down-trading. Market share grew, as Peter Stuyvesant continued to perform well.
Japan	Growth in market share continued, driven by Kent and Kool. Volume was marginally lower, declining at a slower rate than the market. Cost savings and mix improvement offset the impact of higher cost of sales due to exchange rate movements, leading to profit in line with last year.
New Zealand	Profit grew as pricing offset a reduction in volume. Market share was flat.
Bangladesh	Good profit growth was driven by an increase in volume and improved pricing which offset the impact of down-trading. Market share continued to increase, consolidating the Group's leadership position.
Pakistan	Volume grew due to a strong performance by Pall Mall. Profit increased significantly as a result of pricing and cost savings. Market share continued to grow.
Vietnam	Market share was higher driven by State Express 555. Volume was lower due to market contraction, leading to a reduction in profit.
South Korea	Market share was up, driven by Dunhill and Vogue. The market declined by approximately 30% following the 80% increase in excise, leading to lower volume. Profit was higher primarily due to cost savings, offsetting the impact of lower volume.
Philippines	Profitability improved, driven by favourable mix and higher volume as market penetration continued. Market share was stable.
Indonesia	The growth of Dunhill drove an improvement in mix which, with cost savings, more than offset higher clove prices. Market share grew, driven by Dunhill. Volume was down as an excise increase disproportionately impacted the value for money category.

Regional review cont...

AMERICAS

Adjusted profit, at constant rates of exchange, increased by £58 million or 9.2% driven by good performances in Canada, Chile, Venezuela, Argentina and Mexico, more than offsetting lower profit in Brazil. Adjusted profit, at current rates of exchange, fell by 1.6% to £622 million reflecting the devaluation of the Brazilian Real and Venezuelan Bolivar. Volume was 60 billion, a decline of 4.4% mainly as a result of market contractions in Brazil, Canada and Argentina, partially offset by higher volume in Mexico.

Key Market	Performance at constant rates of exchange
Brazil	Dunhill and Minister both grew volume and market share, largely offsetting market share reductions in the rest of the portfolio. Good price/mix was offset by lower volume, as a result of market contraction, leading to a decline in profit.
Canada	Profit was higher driven by pricing, offsetting lower volume due to the federal and provincial excise changes implemented in 2014. Pall Mall delivered a very good performance, increasing volume and market share.
Chile	Profit was up strongly driven by pricing, offsetting the increase in excise and lower volume.
Mexico	Higher volume and a significant increase in market share were driven by the excellent performance of Pall Mall and Lucky Strike, leading to an increase in profit.
Venezuela	Volume was flat, whilst profit was up as continued high price increases offset local hyper-inflation and currency devaluation.
Argentina	Despite lower volume, profit was higher, driven by pricing and timing of marketing expenditure. The growth of Lucky Strike offset declines in the rest of the portfolio, leading to stable market share.
Colombia	Market share continued to grow, driven by Kool. Good pricing and mix were offset by lower volume and adverse transactional impacts from foreign exchange rates, leading to lower profit.

WESTERN EUROPE

Adjusted profit at constant rates of exchange increased by £29 million or 5.3%, as good performances in Denmark, Romania, Germany and Poland were partially offset by Italy, Netherlands and Switzerland. Adjusted profit, at current rates of exchange, fell by 3.4% to £519 million. Cigarette volume was 1.7 % lower at 52 billion as increases in Denmark, France and the UK were more than offset by lower volume in Italy, Poland, Germany and Romania. Fine Cut volume fell by 6.3% to 10 billion sticks equivalent mainly due to reductions in Germany.

Key Market	Performance at constant rates of exchange
Germany	Profit increased, driven by pricing and reductions in cost which more than offset lower volume. Market share was lower as a good performance by Pall Mall was more than offset by the decline in the rest of the portfolio. Fine Cut volume was down, due to timing of price changes and associated trade stock movements in the market.
Switzerland	Market share and volume fell. Price discounting and down-trading led to lower profit.
Romania	Profit grew strongly driven by higher pricing and cost reductions. Volume declined driven by a lower total market. Market share increased, driven by Pall Mall and Dunhill.
Denmark	Volume and profit were significantly higher due to the trade de-stocking in the equivalent period in 2014.
Italy	Cigarette volume fell, partly driven by a lower total market. A return to pricing was more than offset by increased investment in the portfolio leading to a decline in profit. A strong performance by Rothmans was more than offset by the decline of the rest of the portfolio, leading to a reduction in total market share.

Regional review cont...

Key Market	Performance at constant rates of exchange
France	An increase in market share and higher volume were offset by an increase in trade margin, leading to lower profit.
Netherlands	Market share was higher driven by Pall Mall and Lucky Strike. Profit was lower driven by a reduction in volume, partly due to market contraction.
Belgium	Good pricing and lower cost were more than offset by a fall in volume and a decline in market share, leading to a reduction in profit.
United Kingdom	An excellent performance by Rothmans led to an increase in market share and volume. Profit was lower due to increased marketing investment.
Spain	Profit was higher as pricing more than offset lower volume. Market share was down as growth of Lucky Strike and Pall Mall was more than offset by the rest of the portfolio .
Poland	Profitability improved as pricing more than offset lower volume, which was mainly driven by market contraction. Pall Mall maintained its growth momentum, leading to an increase in total market share.

EASTERN EUROPE, MIDDLE EAST AND AFRICA

Adjusted profit at constant rates of exchange decreased by £33 million or 4.6%, as performance in Russia, Ukraine and Nigeria was impacted by the devaluation of their currencies leading to higher input raw material costs. Adjusted profit, at current rates of exchange, decreased by 15.1% to £590 million, further demonstrating the devaluation effect in the key currencies on reported results. Volume was 4.5% lower at 107 billion, as growth in Turkey, Iran and Kazakhstan was more than offset by lower volume due to market contractions in Russia and Ukraine.

Key Market	Performance at constant rates of exchange
South Africa	Volume and profit were lower, mainly due to down-trading following growth of the low priced segment. Benson & Hedges and Pall Mall both grew share but this was not enough to offset declines elsewhere leading to a fall in total market share.
Russia	Market share grew as Rothmans continued its excellent performance, more than offsetting a decline in Kent due to market down-trading. Volume was lower, due to market contraction. Good pricing was more than offset by lower volume and transactional foreign exchange impact due to the devaluation of the Rouble, leading to lower profit.
GCC	Good pricing offset lower volume, leading to stable profits. Market share was lower due to Dunhill, Benson & Hedges and Rothmans, partly offset by growth in JPGL.
Nigeria	Good performance of Benson & Hedges led to an increase in total market share. Political instability in the North caused volume to decline. Profit was lower due to the lower volume, and the impact of the devaluation of the Naira increasing the cost of raw materials.
Iran	Volume was up as Kent continued to grow. An increase in excise led to lower profit.
Turkey	Volume increased and market share was up, driven by Rothmans. Competitive pricing, especially in the low-price segment, led to lower profit.
Kazakhstan	Rothmans drove an increase in volume, despite a lower total market, leading to a higher market share. Profit was stable as down-trading offset the effect of higher volume.
Ukraine	Geopolitical instability continued to impact performance. Profit was down as the significant devaluation in the Hryvnia led to higher costs due to transactional foreign exchange and impacted overall affordability leading to down-trading. A good performance from Rothmans led to an increase in total market share. Volume was down due to market contraction.
Egypt	Profitability declined driven by a reduction in volume as a result of down-trading following the change in excise regime implemented in 2014.

Regional review cont...

The following includes, as reconciled between reported information and non-GAAP management information on page 23:

- a summary of the analysis of revenue and adjusted profit from operations for subsidiaries and joint operations,
- an analysis of the share of post-tax results of associates and joint ventures, and
- adjusted diluted earnings per share.

All percentage changes are based on absolute volumes/values

REGIONAL INFORMATION

For the 6 months ended 30 June	Asia-Pacific	Americas	Western Europe	EEMEA	Total
SUBSIDIARIES					
Volume (cigarette billions)					
2015	103	60	52	107	322
2014	104	63	52	112	331
Change	-0.7%	-4.4%	-1.7%	-4.5%	-2.9%
Revenue (£m)					
2015 (at constant)	1,879	1,570	1,597	1,916	6,962
2015 (at current)	1,893	1,384	1,463	1,658	6,398
2014	1,932	1,415	1,583	1,868	6,798
Change (at constant)	-2.8%	+11.0%	+0.9%	+2.6%	+2.4%
Change (at current)	-2.0%	-2.2%	-7.6%	-11.3%	-5.9%
Adjusted profit from operations (£m)					
2015 (at constant)	781	690	566	662	2,699
2015 (at current)	776	622	519	590	2,507
2014	801	632	537	695	2,665
Change (at constant)	-2.6%	+9.2%	+5.3%	-4.6%	+1.3%
Change (at current)	-3.2%	-1.6%	-3.4%	-15.1%	-6.0%
Operating margin based on adjusted profit (%)					
2015 (at constant)	41.6%	44.0%	35.4%	34.6%	38.8%
2015 (at current)	41.0%	44.9%	35.5%	35.6%	39.2%
2014	41.5%	44.7%	33.9%	37.2%	39.2%

Regional review cont...

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)

2015 (at current)	176	622	-	1	799
2014	158	203	-	3	364
Change	+11.4%	+206.4%	-	-66.7%	+119.5%

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

2015 (at constant)	143	243	-	1	387
2015 (at current)	151	267	-	1	419
2014	142	204	-	3	349
Change (at constant)	+0.7%	+19.1%	-	-66.7%	+10.9%
Change (at current)	+6.3%	+30.9%	-	-66.7%	+20.1%

GROUP

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

2015	30.6%
2014	30.7%

Adjusted diluted earnings per share (pence)

2015 (at constant)	105.8
2015 (at current)	100.2
2014	101.8
Change (at constant)	+3.9%
Change (at current)	-1.6%

FINANCIAL INFORMATION AND OTHER

NET FINANCE INCOME/(COSTS)

Net finance income for the six months to 30 June 2015 was £351 million, compared to a cost of £208 million in the same period last year. The movement is principally due to a deemed gain related to the investment in Reynolds American Inc. (RAI), as described below. Net adjusted finance costs increased as lower interest payable due to lower borrowing costs and higher fair value gains were more than offset by the impact of exchange rate movements.

Net finance income/(costs) comprise:

	6 months to		Year to
	30.6.15	30.6.14	31.12.14
	£m	£m	£m
Finance costs	(282)	(248)	(484)
Finance income	633	40	67
	351	(208)	(417)
Comprising:			
Interest payable	(288)	(295)	(588)
Interest and dividend income	37	38	67
Net impact of fair value and exchange	602	49	104
- fair value changes - derivatives	118	42	154
- option costs related to the funding of the proposed acquisition of non-controlling interests in Souza Cruz	(27)	-	-
- deemed gain related to the investment in RAI	601	-	-
- exchange differences	(90)	7	(50)
	351	(208)	(417)
Adjusting items:			
Option costs and fees, see below	30	-	-
Deemed gain on investment in RAI, see below	(601)	-	-
Net adjusted financing cost	(220)	(208)	(417)

The Group incurred costs of £30 million in relation to financing activities, which comprise option costs and fees on the proposed acquisition of the non-controlling interest in the Group's Brazilian subsidiary, Souza Cruz SA and the Group's activities to maintain the current ownership in RAI following its acquisition of Lorillard Inc.

The Group's investment of US\$4.7 billion in cash in RAI has realised a deemed gain of US\$931 million (£601 million), taken through net financing costs. This has arisen as the contract to acquire shares is deemed to be a financial instrument and has been fair valued through profit and loss, in compliance with IAS 39. The deemed gain reflects the difference between the fixed price paid by the Group to RAI and the market value of RAI shares immediately prior to the completion of the transaction.

Both of the above have been included in the adjusted earnings per share calculation on page 32.

RESULTS OF ASSOCIATES AND JOINT VENTURES

The Group's share of post-tax results of associates and joint ventures increased by £435 million to £799 million, principally due to the impact of a gain recorded by RAI, the Group's share of which is £406 million, in relation to the sale of assets to a subsidiary of Imperial Tobacco PLC, as part of the acquisition of Lorillard Inc. The Group's share of the adjusted post-tax results of associates and joint ventures increased by 20.1% to £419 million, with a rise of 10.9% to £387 million at constant rates of exchange.

The adjusted contribution from RAI increased by 31.0% to £266 million. At constant rates of exchange the increase was 19.0%. The Group's adjusted contribution from its main associate in India, ITC, was £148 million, up 8.5%. At constant rates of exchange, the contribution would have been 2.4% higher than last year. See page 26 for the adjusting items.

TAXATION

	6 months to		Year to
	30.6.15	30.6.14	31.12.14
	£m	£m	£m
UK			
- current year tax	-	-	-
Overseas			
- current year tax expense	660	719	1,439
- adjustment in respect of prior periods	<u>(2)</u>	<u>14</u>	<u>11</u>
Current tax	658	733	1,450
Deferred tax	55	<u>(5)</u>	<u>5</u>
	713	728	1,455
Adjusting items (see below)	(13)	<u>27</u>	<u>69</u>
Net adjusted tax charge	700	<u>755</u>	<u>1,524</u>

The tax rate in the income statement of 20.4% for the six months to 30 June 2015 (30 June 2014: 27.9%, 31 December 2014: 30.0%) is affected by the inclusion of the share of associates' and joint ventures' post-tax profit in the Group's pre-tax results and by adjusting items. The underlying tax rate for subsidiaries reflected in the adjusted earnings per share on page 32 was 30.6% in 2015 and 30.7% for the six months to 30 June 2014. For the year to 31 December 2014 it was 30.6%. The charge relates to taxes payable overseas.

IFRS requires entities to provide deferred taxation on the undistributed earnings of associates and joint ventures. The Group's share of the gain on the divestiture of intangibles and other assets by RAI to ITG Brands LLC, a subsidiary of Imperial Tobacco Group PLC, is £406 million. Given that the profit on this item is recognised as an adjusting item by the Group, the additional deferred tax charge of £31 million on the potential distribution of these undistributed earnings has also been treated as adjusting.

The adjusting tax item also includes £18 million for the six months to 30 June 2015 (30 June 2014: £27 million 31 December 2014: £69 million) in respect of the tax on adjusting items, as described on pages 24 and 25.

Refer to page 37 for the Franked Investment Income Group Litigation Order update.

FREE CASH FLOW AND NET DEBT

In the alternative cash flow presented on page 28, the operating cash flow increased by £194 million or 11.5% to £1,876 million, reflecting lower outflow from working capital and net capital expenditure. Lower net interest paid and taxation offset the fall in appropriations from associates following the completion of the RAI share buy-back (Nil in 2015 and £93 million in 2014). These, combined with the lower restructuring costs, led to the Group's free cash flow increasing by £199 million or 35.1% to £766 million.

The conversion of adjusted operating profit to operating cash flow remained strong at 74.8% (2014: 63.1%). The ratio of free cash flow per share to adjusted diluted earnings per share grew to 41.1% (2014: 29.7%).

Closing net debt was £13,876 million at 30 June 2015 (30 June 2014: £10,961 million and 31 December 2014: £10,165 million), with the increase largely due to the investment in RAI, as described on page 11.

The Group's alternative cash flow statement is shown on page 28 and explained on page 22 under non-GAAP measures.

RISKS AND UNCERTAINTIES

The principal risks and uncertainties which may affect the business activities of the Group were identified under the heading 'Key Group risk factors', set out on pages 30 to 36 of the Annual Report for the year ended 31 December 2014, a copy of which is available on the Group's website 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 next-generation products; Market size reduction and consumer down-trading; Inability to obtain price increases and impact of increases on consumer affordability;
- Excise and tax: Significant excise increases or structure changes; Disputed taxes, interest and penalties;
- Finance: Foreign exchange rate exposures;
- Operations: Geopolitical tensions; Injury, illness or death in the workplace;
- Regulation: Tobacco regulation inhibits growth strategy;
- Programmes and project: Deployment of the Group's revised operating model and single IT operating system ('TaO'); and
- Litigation: Product liability, regulatory or other significant cases may be lost or compromised.

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 2014 Annual Report. These should be read in the context of the cautionary statement regarding forward looking statements on page 39 of this Half-Year 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, as well as the risks associated with the business, are set out in the Strategic Report and in the notes to the accounts, all of which are included in the 2014 Annual Report that is available on the Group's website, www.bat.com. This Half-Year Report provides updated information regarding the business activities for the six months to 30 June 2015 and of the financial position, cash flow and liquidity position at 30 June 2015.

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

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

INVESTMENT IN REYNOLDS AMERICAN INC. (RAI)

On 12 June 2015, RAI completed its acquisition of Lorillard Inc. and related divestiture transactions to ITG Brands LLC, a subsidiary of Imperial Tobacco Group PLC, after receiving the required regulatory approval. At the same time, the intention of which was announced on 15 July 2014, the Group invested US\$4.7 billion (£3.0 billion) of cash in RAI to maintain its 42% equity position in the enlarged business.

The Group has recognised a deemed gain of US\$931 million (£601 million), as part of the cost of investment. This has arisen as the contract to acquire shares is deemed to be a financial instrument and was fair valued through the profit and loss, in compliance with IAS 39. This has been treated as an adjusting item, in line with the Group's policy as described on page 22. Goodwill of US\$529 million (£336 million) has also been recognised, being the difference in the Group's share of the net assets acquired by RAI, and the deemed fair value of the consideration paid.

RAI recognised a gain on divestiture of assets of US\$3,499 million. The Group's share of this net gain amounted to £406 million (net of tax). This has been treated as an adjusting item, in line with the Group's policy as described on page 22.

The above items are provisional, being subject to conclusion of the purchase price allocation process that will be undertaken by RAI during 2015.

POTENTIAL TENDER OFFER FOR SOUZA CRUZ

On 3 March 2015, the Group announced a proposed public tender offer to acquire up to all of the 24.7% of Souza Cruz shares not currently owned by the Group (the "Free Float") and to delist the company. The offer price of R\$26.75 per share to be paid in cash represented a premium of 30.0% to Souza Cruz's volume weighted average closing price per share in the three months prior to 20 February 2015 and would be reduced by any dividend and interest on capital paid by Souza Cruz after 3 March 2015. The current proposed offer price is R\$26.12 per share, with the reduction of R\$0.63 per share due solely to dividends and interest paid as above.

Following their appointment by a special Free Float Souza Cruz shareholders meeting, on 10 April 2015 Credit Suisse (Brasil) S.A. published its independent valuation of Souza Cruz shares and concluded a price range of R\$ 24.30 to R\$ 26.72 per share, which does not take account of the effect of dividends and interest on capital paid as explained above.

Approval of the Edital and related offer documents by the Brazilian regulator the CVM is expected to occur in August. Once this approval is received the Group would be in a position to formally launch its public tender offer to acquire the Free Float. Subject to the satisfaction of certain conditions precedent, financial settlement relating to the offer would occur in Q3 2015.

TDR - CROATIA

On 30 May 2015, the Group signed an agreement to acquire TDR d.o.o. and other tobacco and retail assets ("TDR") from Adris Grupa d.d. ("Adris") for a total enterprise value of €550 million.

TDR is the leading independent cigarette manufacturer in Central Europe with a market leading position in Croatia and a position of scale in Bosnia and Serbia which will provide the Group with the opportunity to significantly grow its business in the region. By combining its existing business in the region together with TDR, the Group expects to benefit from highly skilled people, well established brands, enhanced regional leaf processing capabilities, a local high quality factory and print facility and strong relationships with distributors and retailers in these markets.

The proposed acquisition is subject to a number of anti-trust approvals. The transaction is expected to complete by October 2015.

IMPERIAL TOBACCO CANADA – QUEBEC CLASS ACTIONS

On 1 June 2015, a judgement was issued in relation to two class action cases which found against the three Canadian tobacco companies. Damages were awarded by the Court with the Group's subsidiary, Imperial Tobacco Canada's share being approximately CAD\$10.4 billion. The court also granted an order for provisional execution in the sum of CAD\$1.1 billion, with Imperial Tobacco Canada's share of that order being CAD\$743 million. Imperial Tobacco Canada, and the other domestic manufacturers, filed an appeal against the preliminary execution order and will also appeal the substantive judgment.

On 23 July 2015, the Quebec Court of Appeal delivered a unanimous verdict cancelling the provisional execution order. Imperial Tobacco Canada will now focus on its appeal against the original Superior Court of Quebec Class Action judgement. As such the Group continues to disclose a contingent liability in regards to this matter.

British American Tobacco p.l.c. was not a party to the proceeding and is not a party to the original judgement.

DIRECTORS' RESPONSIBILITY STATEMENT

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

The Directors of British American Tobacco p.l.c. are as listed on pages 48 and 49 in the British American Tobacco Annual Report for the year ended 31 December 2014.

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

For and on behalf of the Board of Directors:

Richard Burrows
Chairman
28 July 2015

Ben Stevens
Finance Director

ENQUIRIES:

INVESTOR RELATIONS:

Mike Nightingale 020 7845 1180
Rachael Brierley 020 7845 1519

PRESS OFFICE:

Will Hill 020 7845 1222
Anna Vickerstaff 020 7845 2469

Webcast and Conference Call

A live webcast of the results is available via www.bat.com/ir.

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

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Please quote Passcode: 94785664#

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: 660260#

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

We have been engaged by British American Tobacco p.l.c. to review the condensed set of financial statements in the half-year report for the six months ended 30 June 2015 which comprises the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Changes in Equity, the Group Balance Sheet, the Group Cash Flow Statement and the related explanatory notes. We have read the other information contained in the half-year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors’ responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-year report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Mark Baillache

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London E14 5GL
28 July 2015

GROUP INCOME STATEMENT - unaudited

	6 months to		Year to
	30.6.15	30.6.14	31.12.14
	£m	£m	£m
Gross turnover (including duty, excise and other taxes of £13,506 million (30.6.14: £13,590 million; 31.12.14: £28,535 million))	19,904	20,388	42,506
Revenue	6,398	6,798	13,971
Raw materials and consumables used	(1,489)	(1,498)	(3,088)
Changes in inventories of finished goods and work in progress	31	35	58
Employee benefit costs	(973)	(1,062)	(2,194)
Depreciation, amortisation and impairment costs	(197)	(234)	(523)
Other operating income	75	93	178
Other operating expenses	(1,498)	(1,674)	(3,856)
Profit from operations	2,347	2,458	4,546
Analysed as:			
– adjusted profit from operations	2,507	2,665	5,403
– restructuring and integration costs	(133)	(179)	(452)
– amortisation of trademarks and similar intangibles	(26)	(28)	(58)
– Fox River	-	-	27
– Flintkote	(1)	-	(374)
	2,347	2,458	4,546
Net finance income/(costs)	351	(208)	(417)
Finance income	633	40	67
Finance costs	(282)	(248)	(484)
Share of post-tax results of associates and joint ventures	799	364	719
Analysed as:			
– adjusted share of post-tax results of associates and joint ventures	419	349	712
– issue of shares and change in shareholding	25	16	14
– gain on disposal of assets	406	-	-
– other (see page 26)	(51)	(1)	(7)
	799	364	719
Profit before taxation	3,497	2,614	4,848
Taxation on ordinary activities	(713)	(728)	(1,455)
Profit for the period	2,784	1,886	3,393
Attributable to:			
Owners of the parent	2,645	1,747	3,115
Non-controlling interests	139	139	278
	2,784	1,886	3,393
Earnings per share			
Basic	142.4p	93.3p	167.1p
Diluted	142.1p	93.1p	166.6p
Adjusted diluted	100.2p	101.8p	208.1p

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

The accompanying notes on pages 8, 9 and 21 to 39 form an integral part of this condensed consolidated financial information.

GROUP STATEMENT OF COMPREHENSIVE INCOME - unaudited

	6 months to		Year to
	30.6.15	30.6.14	31.12.14
	£m	£m	£m
Profit for the period (page 14)	2,784	1,886	3,393
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:	(458)	(174)	(327)
Differences on exchange			
– subsidiaries	(530)	(194)	(539)
– associates	(56)	(54)	113
Cash flow hedges			
– net fair value (losses)/gains	(77)	(20)	57
– reclassified and reported in profit for the period	15	(7)	(67)
– reclassified and reported in net assets	16	7	8
Available-for-sale investments of associates			
– net fair value (losses)/gains	(7)	7	15
Net investment hedges			
– net fair value gains	97	39	2
– differences on exchange on borrowings	72	30	60
Tax on items that may be reclassified	12	18	24
Items that will not be reclassified subsequently to profit or loss:	139	(110)	(458)
Retirement benefit schemes			
– net actuarial gains/(losses) in respect of subsidiaries	139	(141)	(428)
– surplus recognition and minimum funding obligations in respect of subsidiaries	(6)	1	7
– actuarial gains/(losses) in respect of associates net of tax	28	(4)	(124)
Tax on items that will not be reclassified	(22)	34	87
Total other comprehensive income for the period, net of tax	(319)	(284)	(785)
Total comprehensive income for the period, net of tax	2,465	1,602	2,608
Attributable to:			
Owners of the parent	2,358	1,464	2,349
Non-controlling interests	107	138	259
	2,465	1,602	2,608

The accompanying notes on pages 8, 9 and 21 to 39 form an integral part of this condensed consolidated financial information.

GROUP STATEMENT OF CHANGES IN EQUITY - unaudited

At 30 June 2015

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

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
Balance at 1 January 2014	507	3,919	(190)	2,398	6,634	301	6,935
Total comprehensive income for the period (page 15)	-	-	(170)	1,634	1,464	138	1,602
Profit for the period (page 14)	-	-	-	1,747	1,747	139	1,886
Other comprehensive income for the period (page 15)	-	-	(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
Balance at 30 June 2014	507	3,922	(360)	1,386	5,455	296	5,751

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

At 31 December 2014

Attributable to owners of the parent

	Share capital £m	Share premium, capital redemption and merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of parent £m	Non- controlling interests £m	Total equity £m
Balance at 1 January 2014	507	3,919	(190)	2,398	6,634	301	6,935
Total comprehensive income for the period (page 15)	-	-	(308)	2,657	2,349	259	2,608
Profit for the period (page 14)	-	-	-	3,115	3,115	278	3,393
Other comprehensive income for the period (page 15)	-	-	(308)	(458)	(766)	(19)	(785)
Employee share options							
– value of employee services	-	-	-	66	66	-	66
– proceeds from shares issued	-	4	-	1	5	-	5
Dividends and other appropriations							
– ordinary shares	-	-	-	(2,712)	(2,712)	-	(2,712)
– to non-controlling interests	-	-	-	-	-	(260)	(260)
Purchase of own shares							
– held in employee share ownership trusts	-	-	-	(49)	(49)	-	(49)
– share buy-back programme	-	-	-	(800)	(800)	-	(800)
Non-controlling interests – acquisitions	-	-	-	(4)	(4)	-	(4)
Non-controlling interests – capital injection	-	-	-	-	-	4	4
Other movements	-	-	-	21	21	-	21
Balance at 31 December 2014	507	3,923	(498)	1,578	5,510	304	5,814

The accompanying notes on pages 8, 9 and 21 to 39 form an integral part of this condensed consolidated financial information.

GROUP BALANCE SHEET - unaudited

	30.6.15 £m	30.6.14 £m	31.12.14 £m
Assets			
Non-current assets			
Intangible assets	10,128	10,932	10,804
Property, plant and equipment	2,831	3,042	3,004
Investments in associates and joint ventures	6,596	2,334	2,400
Retirement benefit assets	218	88	40
Deferred tax assets	274	272	311
Trade and other receivables	181	187	153
Available-for-sale investments	33	35	36
Derivative financial instruments	243	159	287
Total non-current assets	20,504	17,049	17,035
Current assets			
Inventories	3,766	4,030	4,133
Income tax receivable	77	84	57
Trade and other receivables	2,516	2,601	2,768
Available-for-sale investments	50	42	50
Derivative financial instruments	307	260	274
Cash and cash equivalents	1,417	1,580	1,818
	8,133	8,597	9,100
Assets classified as held-for-sale	38	32	32
Total current assets	8,171	8,629	9,132
Total assets	28,675	25,678	26,167

The accompanying notes on pages 8, 9 and 21 to 39 form an integral part of this condensed consolidated financial information.

GROUP BALANCE SHEET - unaudited cont...

	30.6.15 £m	30.6.14 £m	31.12.14 £m
Equity			
Capital and reserves			
Share capital	507	507	507
Share premium, capital redemption and merger reserves	3,926	3,922	3,923
Other reserves	(924)	(360)	(498)
Retained earnings	2,478	1,386	1,578
Owners of the parent	5,987	5,455	5,510
after deducting			
– cost of treasury shares	(5,060)	(5,100)	(5,073)
Non-controlling interests	261	296	304
Total equity	6,248	5,751	5,814
Liabilities			
Non-current liabilities			
Borrowings	14,131	9,029	9,779
Retirement benefit liabilities	701	616	781
Deferred tax liabilities	513	479	495
Other provisions for liabilities and charges	280	380	278
Trade and other payables	89	130	128
Derivative financial instruments	128	114	123
Total non-current liabilities	15,842	10,748	11,584
Current liabilities			
Borrowings	1,341	3,685	2,479
Income tax payable	435	486	430
Other provisions for liabilities and charges	203	342	210
Trade and other payables	4,433	4,617	5,524
Derivative financial instruments	173	49	126
Total current liabilities	6,585	9,179	8,769
Total equity and liabilities	28,675	25,678	26,167

The accompanying notes on pages 8, 9 and 21 to 39 form an integral part of this condensed consolidated financial information.

GROUP CASH FLOW STATEMENT - unaudited

	6 months to		Year to
	30.6.15 £m	30.6.14 £m	31.12.14 £m
Cash flows from operating activities			
Cash generated from operations (page 30)	1,841	1,702	4,634
Dividends received from associates	201	179	515
Tax paid	(687)	(711)	(1,433)
Net cash generated from operating activities	1,355	1,170	3,716
Cash flows from investing activities			
Interest received	32	33	61
Dividends received from investments	-	2	2
Purchases of property, plant and equipment	(154)	(171)	(529)
Proceeds on disposal of property, plant and equipment	10	10	62
Purchases of intangibles	(52)	(106)	(163)
Purchases of investments	(57)	(26)	(31)
Proceeds on disposals of investments	-	34	34
Proceeds from associate's share buy-back	-	93	94
Investment in associates	(3,015)	-	-
Net cash used in investing activities	(3,236)	(131)	(470)
Cash flows from financing activities			
Interest paid	(265)	(333)	(571)
Interest element of finance lease rental payments	(1)	-	-
Capital element of finance lease rental payments	13	(1)	(2)
Proceeds from issue of shares to owners of the parent	3	3	4
Proceeds from the exercise of options over own shares held in employee share ownership trusts	-	1	1
Proceeds from increases in and new borrowings	5,736	1,503	1,967
Movements relating to derivative financial instruments	106	110	244
Purchases of own shares	-	(614)	(800)
Purchases of own shares held in employee share ownership trusts	(46)	(50)	(49)
Reductions in and repayments of borrowings	(1,884)	(160)	(1,300)
Dividends paid to owners of the parent	(1,862)	(1,831)	(2,712)
Purchases of non-controlling interests	(16)	-	(4)
Non-controlling interests – capital injection	-	4	4
Dividends paid to non-controlling interests	(140)	(143)	(249)
Net cash generated from/(used in) financing activities	1,644	(1,511)	(3,467)
Net cash flows used in operating, investing and financing activities	(237)	(472)	(221)
Differences on exchange	(100)	4	(63)
Decrease in net cash and cash equivalents in the period	(337)	(468)	(284)
Net cash and cash equivalents at 1 January	1,492	1,776	1,776
Net cash and cash equivalents at period end	1,155	1,308	1,492

The accompanying notes on pages 8, 9 and 21 to 39 form an integral part of this condensed consolidated financial information.

The net cash outflows relating to adjusting items (see pages 24 and 25) included in the above are £159 million (30 June 2014: £175 million, 31 December 2014: £750 million).

ACCOUNTING POLICIES AND BASIS OF PREPARATION

The condensed consolidated financial information comprises the unaudited interim financial information for the six months to 30 June 2015 and 30 June 2014, together with the audited results for the year ended 31 December 2014. 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 13.

The condensed consolidated financial information does not constitute statutory accounts within the meaning of the UK Companies Act 2006 and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2014, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The annual consolidated financial statements for 2014 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 (2) or (3) of the Companies Act 2006.

This condensed consolidated financial information has been prepared under the historical cost convention, except in respect of certain financial instruments, and on a basis consistent with the IFRS accounting policies as set out in the Annual Report for the year ended 31 December 2014.

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 2014, 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 IFRS, the generally accepted accounting principles (GAAP) under which the Group reports. The Group believes that these additional measures, which are used internally, are useful to users of the financial information in helping them understand the underlying business performance.

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

All adjustments to profit from operations, net finance costs, associates and joint ventures, tax and diluted earnings per share are explained in this announcement. See pages 24 to 27 and page 32.

The Management Board, as the chief operating decision maker, reviews current and prior year segmental adjusted profit from operations of subsidiaries and joint operations, and adjusted post tax results of associates and joint ventures, at constant rates of exchange. This allows comparison of the current year results of the Group's overseas entities, including intercompany royalties payable in foreign currency to UK entities, had they been translated at the previous year's rates of exchange. Other than in exceptional circumstances, which will be fully disclosed, the Group does not adjust for the normal transactional gains and losses in operations that are generated by exchange movements. As an additional measure to indicate the impact of the exchange rate movements on the Group results, the principal measure of adjusted diluted earnings per share is also shown at constant rates of exchange. See page 23.

The Group prepares an alternative cash flow, which includes a measure of 'free cash flow', to illustrate the cash flows before transactions relating to borrowings. A net debt summary is also provided. See pages 29 and 30. 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 33.

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

REVENUE

	30 June 2015			30 June 2014
	Reported revenue £m	Impact of exchange £m	Revenue @ CC ¹ £m	Reported revenue £m
Asia-Pacific	1,893	(14)	1,879	1,932
Americas	1,384	186	1,570	1,415
Western Europe	1,463	134	1,597	1,583
EEMEA	1,658	258	1,916	1,868
Total	6,398	564	6,962	6,798

PROFIT FROM OPERATIONS AND DILUTED EARNINGS PER SHARE

	30 June 2015					30 June 2014		
	Reported £m	Adjusting items £m	Adjusted £m	Impact of exchange £m	Adjusted at CC ¹ £m	Reported £m	Adjusting items £m	Adjusted £m
Asia-Pacific	726	50	776	5	781	739	62	801
Americas	588	34	622	68	690	596	36	632
Western Europe	473	46	519	47	566	463	74	537
EEMEA	561	29	590	72	662	660	35	695
Total Region	2,348	159	2,507	192	2,699	2,458	207	2,665
Non-tobacco litigation: Flintkote	(1)	1	-	-	-	-	-	-
Profit from operations	2,347	160	2,507	192	2,699	2,458	207	2,665
Net finance income/(costs)	351	(571)	(220)	(18)	(238)	(208)	-	(208)
Associates and joint ventures	799	(380)	419	(32)	387	364	(15)	349
Profit before tax	3,497	(791)	2,706	142	2,848	2,614	192	2,806
Taxation	(713)	13	(700)	(31)	(731)	(728)	(27)	(755)
Non-controlling interest	(139)	(2)	(141)	(6)	(147)	(139)	(2)	(141)
Profit attributable to shareholders	2,645	(780)	1,865	105	1,970	1,747	163	1,910
Diluted number of shares (m)	1,862		1,862		1,862	1,876		1,876
Diluted earnings per share (pence)	142.1p		100.2p		105.8p	93.1		101.8

Notes:

(1) CC: constant currencies

ADJUSTING ITEMS INCLUDED IN PROFIT FROM OPERATIONS

Adjusting items are significant items in the profit from operations which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance. See page 22. These items are separately disclosed as memorandum information on the face of the income statement and in the segmental analyses.

(a) Restructuring and integration costs

Restructuring costs reflect the costs incurred as a result of initiatives to improve the effectiveness and the efficiency of the Group as a globally integrated enterprise, including the relevant operating costs of implementing the new operating model. These costs represent additional expenses incurred that are not related to the normal business and day-to-day activities. The new operating model includes revised organisation structures, standardised processes and shared back office services underpinned by a global single instance of SAP. The new organisation structures and processes are currently being implemented and the deployment of the new SAP system started in the third quarter of 2012 and will take at least four years to fully roll out. These initiatives also include a review of the Group's manufacturing operations, supply chain, overheads and indirect costs, organisational structure and systems and software used. The costs of these initiatives together with the costs of integrating acquired businesses into existing operations, including acquisition costs, are included in profit from operations under the following headings:

	6 months to		Year to
	30.6.15	30.6.14	31.12.14
	£m	£m	£m
Employee benefit costs	67	89	223
Depreciation and impairment costs	-	27	69
Other operating expenses	66	63	180
Other operating income	-	-	(20)
Total	<u>133</u>	<u>179</u>	<u>452</u>

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

Restructuring and integration costs in the six months to 30 June 2014 principally related 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 covered the continuation of factory closures and downsizing activities in Australia and the Democratic Republic of Congo, and restructurings in Argentina, Canada, Switzerland and Germany.

For the year ended 31 December 2014, restructuring and integration costs principally included the activities referred to in respect of the six months to 30 June 2014. In addition, the costs also covered restructurings in Colombia and Indonesia.

Other operating income in 2014 included gains from the sale of land and buildings in Turkey, Uganda and the Democratic Republic of Congo.

(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 £26 million is included in depreciation, amortisation and impairment costs in the profit from operations for the six months to 30 June 2015 (30 June 2014: £28 million). For the year to 31 December 2014, the amortisation charge was £58 million.

Adjusting items included in profit from operations cont...

(c) Fox River

In 2011, a Group subsidiary provided £274 million in respect of claims in relation to environmental cleanup costs of the Fox River. On 30 September 2014, a Group subsidiary, NCR, Appvion and Windward Prospects entered into a Funding Agreement with regard to the costs for the clean-up of Fox River. Based on this Funding Agreement, in the six months to 30 June 2015, £4 million has been paid (30 June 2014: nil, 31 December 2014: £56 million) with legal costs incurred of £3 million (30 June 2014: nil, 31 December 2014: £7 million). In 2014, the Fox River provision was reviewed and £27 million was released.

(d) Flintkote

In December 2014, a Group subsidiary entered into a settlement agreement in connection with various legal cases related to a former non-tobacco business in Canada. Under the terms of the settlement, the subsidiary will obtain protection from current and potential future Flintkote related asbestos liability claims in the United States. The settlement is contingent upon further documentation and approval of certain courts in the United States. This agreement led to a charge in 2014 of £374 million. In the six months to 30 June 2015, £1 million has been paid in relation to legal costs and, consistent with prior treatment, this has been taken as an adjusting item.

ADJUSTING ITEMS INCLUDED IN NET FINANCING COSTS

Adjusting items are significant items in net financing costs which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance. See page 22.

The Group incurred costs of £30 million in relation to financing activities, which comprise option costs and fees on the proposed acquisition of the non-controlling interest in the Group's Brazilian subsidiary, Souza Cruz SA and the Group's activities to maintain the current ownership in RAI following its acquisition of Lorillard Inc.

The Group's investment of US\$4.7 billion in cash in RAI has realised a deemed gain of US\$931 million (£601 million). This has arisen as the contract to acquire shares is deemed to be a financial instrument and has been fair valued through profit and loss, in compliance with IAS 39. The deemed gain reflects the difference between the fixed price paid by the Group to RAI and the market value of RAI shares on the day of the transaction.

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 32.

In the six months to 30 June 2015:

The Group's interest in ITC decreased from 30.26% to 30.11% as a result of ITC issuing ordinary shares under the company's Employee Share Option Scheme. The issue of these shares and change in the Group's share of ITC resulted in a gain of £25 million, which is treated as a deemed partial disposal and included in the income statement.

RAI recognised a gain on the related divestiture of assets, following the Lorillard acquisition, of US\$3,499 million. The Group's share of this net gain amounted to £406 million (net of tax), which is subject to the accounting for the Lorillard acquisition.

RAI has also recognised amounts that have been combined in the table of adjusting items in the Group income statement and are shown as "other". This includes restructuring charges of US\$104 million, the Group's share of which is £18 million (net of tax), costs in respect of a number of Engle progeny lawsuits and other tobacco litigation charges that amounted to US\$130 million, the Group's share of which is £22 million (net of tax). Also included are transaction costs of US\$54 million and financing costs of US\$60 million connected with the acquisition of Lorillard, Inc. the Group's share of which is £12 million (net of tax) and £11 million (net of tax), respectively, and income of US\$70 million related to the Non-Participating Manufacturer (NPM) Adjustment claims of the two states no longer challenging the findings of non-diligence entered against them by an Arbitration Panel, the Group's share of this income amounted to £12 million (net of tax).

In 2013, RAI, various other tobacco manufacturers, 19 states, the District of Columbia and Puerto Rico reached a final agreement related to RAI's 2003 Master Settlement Agreement (MSA) activities. Under this agreement RAI will receive credits, estimated to be more than US\$1 billion, in respect of its Non-Participating Manufacturer (NPM) Adjustment claims. In June 2014, a further two states entered into a settlement agreement in relation to disputed NPM Adjustment Claims for the years 2003 to 2012. Under the settlement RAI expects to receive more than US\$170 million in MSA credit to be applied over 5 years. In addition, in 2015, another two states are no longer challenging the findings of non-diligence entered against them by an Arbitration Panel. A certain portion of the NPM Adjustment claim for 2003 for these two states is now certain and has been estimated, with RAI recognising this in the six months to 30 June 2015. Credits in respect of future years' payments and the NPM Adjustment claims would be accounted for in the applicable year and will not be treated as adjustable items. Only credits in respect of prior year payments are included as adjustable items.

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.

RAI 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) and income of US\$21 million related to the 2013 MSA liability. The Group's share of this income amounted to £5 million (net of tax). RAI 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).

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

For the year ended 31 December 2014:

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

RAI also recognised amounts that have been combined in the table of adjusting items in the Group income statement and are shown as "other". These are costs in respect of a number of Engle progeny lawsuits and other tobacco litigation charges that amount to US\$102 million, the Group's share of which is £16 million (net of tax). RAI recognised income of US\$34 million related to the 2013 MSA liability as an adjusting item. The Group's share of this income amounted to £5 million (net of tax). RAI recognised a net gain from discontinued activities of US\$25 million, reduced by restructuring activities of US\$16 million, resulting in a net gain of US\$9 million. The Group's share of this net gain amounted to £4 million (net of tax).

ADJUSTING ITEMS INCLUDED IN TAXATION

IFRS requires entities to provide deferred taxation on the undistributed earnings of associates and joint-ventures. The Group's share of the gain on the divestiture of intangibles and other assets by RAI to ITG Brands LLC, a subsidiary of Imperial Tobacco Group PLC, is £406 million. Given that the profit on this item is recognised as an adjusting item by the Group, the additional deferred tax charge of £31 million on the potential distribution of these undistributed earnings has also been treated as adjusting.

The adjusting tax item also includes £18 million for the six months to 30 June 2015 (30 June 2014: £27 million 31 December 2014: £69 million) in respect of the tax on adjusting items, as described on pages 24 and 25.

CASH FLOW AND NET DEBT MOVEMENTS

(a) Alternative cash flow

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

	6 months to		Year to
	30.6.15	30.6.14	31.12.14
	£m	£m	£m
Adjusted profit from operations (page 14)	2,507	2,665	5,403
Depreciation, amortisation and impairment	171	179	396
Other non-cash items in operating profit	3	17	45
Profit from operations before depreciation and impairment	2,681	2,861	5,844
Increase in working capital	(609)	(916)	(309)
Net capital expenditure	(196)	(263)	(627)
Gross capital expenditure	(206)	(273)	(689)
Sale of fixed assets	10	10	62
Operating cash flow	1,876	1,682	4,908
Pension funds' shortfall funding	(70)	(70)	(140)
Net interest paid	(252)	(288)	(426)
Tax paid	(687)	(711)	(1,433)
Dividends paid to non-controlling interests	(140)	(143)	(249)
Cash generated from operations	727	470	2,660
Restructuring costs	(154)	(175)	(325)
Non-tobacco litigation: Flintkote and Fox River	(8)	-	(437)
Dividends and other appropriations from associates	201	272	609
Free cash flow	766	567	2,507
Dividends paid to shareholders	(1,862)	(1,831)	(2,712)
Share buy-back (including transaction costs)	-	(614)	(800)
Net investment activities	(3,031)	(5)	(6)
Net flow from share schemes and other	(110)	69	108
Net cash flow	(4,237)	(1,814)	(903)
External movements on net debt			
Exchange rate effects*	417	316	270
Change in accrued interest and other	109	52	(17)
Change in net debt	(3,711)	(1,446)	(650)
Opening net debt	(10,165)	(9,515)	(9,515)
Closing net debt	(13,876)	(10,961)	(10,165)

* Including movements in respect of debt related derivatives.

Cash flow and net debt movements cont...

In the alternative cash flow presented on page 28, the operating cash flow increased by £194 million or 11.5% to £1,876 million, reflecting lower outflow from working capital and net capital expenditure. Lower net interest paid and taxation partially offset the fall in appropriations from associates following the completion of the RAI share buy-back (Nil in 2015 and £93 million in 2014). These, combined with the decrease in restructuring costs led to the Group's free cash flow increasing by £199 million or 35.1% to £766 million.

The conversion of adjusted operating profit to operating cash flow remained strong at 74.8% (2014: 63.1%). The ratio of free cash flow per share to adjusted diluted earnings per share grew to 41.1% (2014: 29.7%).

Below free cash flow, the principal cash outflows for the six months to 30 June 2015 comprise the payment of the prior year final dividend which was £31 million higher at £1,862 million.

During 2015, the cash outflow from net investing activities was £3,031 million, principally being the investment in RAI. In the six months to 30 June 2014, the cash outflow was £5 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 £4,237 million (2014: £1,814 million). After taking account of other changes, especially exchange rate movements, total net debt was £13,876 million at 30 June 2015 (30 June 2014: £10,961 million and 31 December 2014: £10,165 million).

(b) Net debt

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

	6 months to		Year to
	30.6.15	30.6.14	31.12.14
	£m	£m	£m
Net debt due within one year:			
Borrowings	1,341	3,685	2,479
Related derivatives	(32)	(87)	(79)
Cash and cash equivalents	(1,417)	(1,580)	(1,818)
Current available-for-sale investments	(50)	(42)	(50)
	<u>(158)</u>	<u>1,976</u>	<u>532</u>
Net debt due beyond one year:			
Borrowings	14,131	9,029	9,779
Related derivatives	(97)	(44)	(146)
	<u>14,034</u>	<u>8,985</u>	<u>9,633</u>
Total net debt	<u><u>13,876</u></u>	<u><u>10,961</u></u>	<u><u>10,165</u></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 20 includes the following items:

	6 months to		Year to
	30.6.15	30.6.14	31.12.14
	£m	£m	£m
Profit from operations	2,347	2,458	4,546
Adjustments for:			
Depreciation, Amortisation impairment and costs	197	234	523
Decrease/(Increase) in inventories	24	(110)	(405)
Decrease/(Increase) in trade and other receivables	59	149	(36)
(Decrease)/Increase in trade and other payables	(713)	(932)	203
(Decrease) in net retirement benefit liabilities	(96)	(100)	(170)
Increase/(Decrease) in provisions for liabilities and charges	21	(15)	(76)
Other non-cash items	2	18	49
Cash generated from operations	<u>1,841</u>	<u>1,702</u>	<u>4,634</u>

(d) IFRS net cash and cash equivalents

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

	6 months to		Year to
	30.6.15	30.6.14	31.12.14
	£m	£m	£m
Cash and cash equivalents per balance sheet	1,417	1,580	1,818
Accrued interest	(1)	(2)	(1)
Overdrafts	(261)	(270)	(325)
Net cash and cash equivalents	<u>1,155</u>	<u>1,308</u>	<u>1,492</u>

(e) Liquidity

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

The Group targets an average centrally managed debt maturity of at least five years with no more than 20% of centrally managed debt maturing in a single rolling year. As at 30 June 2015, the average centrally managed debt maturity was 7.8 years (30 June 2014: 7.0 years; 31 December 2014: 6.8 years) and the highest proportion of centrally managed debt maturing in a single rolling 12-month period was 13.8% (30 June 2014: 16.8%; 31 December 2014: 18.7%).

It is Group policy that short-term sources of funds (including issuance under both the US\$3 billion US and £1 billion euro commercial paper programmes) are backed by undrawn committed lines of credit and cash. At 30 June 2015, £238 million of commercial paper was outstanding (30 June 2014: £795 million; 31 December 2014: £160 million).

In February 2015, the Group signed a one-year bridge facility of £2.5 billion with an extension option of up to one year for its possible public tender offer to acquire up to all of the 24.7% of Souza Cruz shares which are not currently owned by BAT.

Cash flow and net debt movements cont...

In March 2015, the Group issued €3 billion of bonds in four tranches as follows: €800 million maturing in 2019, €800 million maturing in 2023, €800 million maturing in 2027 and €600 million maturing in 2045. A €1.25 billion bond was repaid.

In May 2015, a one year extension option was exercised for the £3 billion central banking facility, extending the final maturity to May 2020. The facility was undrawn as at 30 June 2015. The US\$2 billion US commercial paper programme was increased in size to US\$3 billion.

In June 2015, the Group issued US\$4.5 billion of bonds in five tranches as follows: US\$750 million maturing in 2018, US\$1,250 million maturing in 2020, US\$500 million maturing in 2022, US\$1,500 million maturing in 2025 and US\$500 million of floating rate notes maturing in 2018. A US\$500mn bond was repaid. The US\$4.7 billion stand-by facility in respect of the RAI transaction was cancelled following the issue of the bonds.

In March 2014, the Group issued €1 billion of bonds in two tranches as follows: €600 million maturing in 2029 and €400 million of floating rate notes maturing in 2018.

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.

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 August 2014, the Group repaid a maturing MYR250 million note, financed from Group cash balances.

In September 2014, the Group issued SFr1 billion of bonds in three tranches as follows: SFr350 million maturing in 2016, SFr400 million maturing in 2021 and SFr250 million maturing in 2026. A one-year bridge facility of US\$4.7 billion with an extension option of up to one year for the Group's investment in RAI was signed. A €600 million bond was repaid, financed from Group cash balances.

The Group has drawn US\$225 million in 2015 and 2014 against a Chilean peso facility, maturing in 2016.

EARNINGS PER SHARE

Adjusted diluted earnings per share decreased by 1.6% to 100.2p (2014: 101.8p), principally as a result of the lower profit from operations due to adverse exchange rate movements offset by the higher share of post-tax results of associates and joint ventures. At constant rates, adjusted diluted earnings per share increased by 3.9% to 105.8p (2014: 101.8p). Basic earnings per share was 52.6% higher at 142.4p (2014: 93.3p) benefitting from gains as a result of the acquisition of Lorillard Inc. by the Group's associate RAI, as described on page 11.

	6 months to		Year to
	30.6.15	30.6.14	31.12.14
	pence	pence	pence
Earnings per share			
- basic	142.4	93.3	167.1
- diluted	142.1	93.1	166.6
Adjusted earnings per share			
- basic	100.4	102.0	208.7
- diluted	100.2	101.8	208.1
Headline earnings per share			
- basic	119.4	93.1	169.7
- diluted	119.1	92.9	169.1

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.

Adjusted diluted earnings per share and **adjusted diluted earnings per share at constant rates of exchange** are calculated by taking the following adjustments into account (see pages 24 to 27):

	6 months to		Year to
	30.6.15	30.6.14	31.12.14
	pence	pence	pence
Unadjusted diluted earnings per share	142.1	93.1	166.6
Effect of restructuring and integration costs	6.2	8.3	20.6
Effect of amortisation of trademarks and similar intangibles	1.2	1.2	2.7
Effect of Fox River	-	-	(1.4)
Effect of Flintkote	0.1	-	20.0
Effect of associates' adjusting items	(20.4)	(0.8)	(0.4)
Effect of adjusting items in finance costs	(30.7)	-	-
Effect of adjusting items in respect of deferred taxation	1.7	-	-
Adjusted diluted earnings per share	100.2	101.8	208.1
Effect of exchange rate movements	5.6		
Adjusted diluted earnings per share (at constant rates)	105.8		

Earnings Per Share cont...

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

	<u>6 months to</u>		<u>Year to</u>
	30.6.15	30.6.14	31.12.14
	pence	pence	pence
Unadjusted diluted earnings per share	142.1	93.1	166.6
Effect of impairment of intangibles and property, plant and equipment and held-for-sale assets	0.5	1.1	4.7
Effect of gains on disposal of property, plant and equipment and held-for-sale assets	(0.3)	(0.5)	(1.4)
Effect of share of associates' gain on disposal of held-for-sale assets	(21.8)	-	-
Effect of issue of shares and change in shareholding in associate	(1.4)	(0.8)	(0.8)
Diluted headline earnings per share	<u>119.1</u>	<u>92.9</u>	<u>169.1</u>
An alternative measure of headline earnings per share is presented to take account of the effects of Fox River and Flintkote (see page 25) and the deemed gain on the contract to acquire shares in RAI (see page 8); this measure is in addition to and not mandated by the JSE Listing requirements			
Headline earnings per share as amended	<u>86.8</u>	<u>92.9</u>	<u>187.7</u>

The earnings per share are based on:

	<u>30.6.15</u>		<u>30.6.14</u>		<u>31.12.14</u>	
	Earnings	Shares	Earnings	Shares	Earnings	Shares
	£m	m	£m	m	£m	m
Earnings per share						
- basic	2,645	1,858	1,747	1,872	3,115	1,864
- diluted	2,645	1,862	1,747	1,876	3,115	1,870
Adjusted earnings per share						
- basic	1,865	1,858	1,910	1,872	3,891	1,864
- diluted	1,865	1,862	1,910	1,876	3,891	1,870
- diluted, at constant rates	1,970	1,862				
Headline earnings per share						
- basic	2,218	1,858	1,742	1,872	3,163	1,864
- diluted	2,218	1,862	1,742	1,876	3,163	1,870

DIVIDENDS

Declaration

The Board has declared an interim dividend of 49.4 pence per ordinary share of 25p for the six months ended 30 June 2015. The interim dividend will be payable on 30 September 2015 to shareholders registered on either the UK main register or the South Africa branch register on 21 August 2015 (the record date).

Key Dates and South Africa Branch Register

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

Event	Date 2015
Last Day to Trade (LDT) cum dividend (JSE)	Friday 14 August
Shares commence trading ex dividend (JSE)	Monday 17 August
Shares commence trading ex dividend (LSE)	Thursday 20 August
Record date (JSE and LSE)	Friday 21 August
Payment date	Wednesday 30 September
No removal requests permitted between the UK main register and the South Africa branch register	Wednesday 29 July to Friday 21 August (inclusive)
No transfers permitted between the UK main register and the South Africa branch register	Monday 17 August to Friday 21 August (inclusive)
No shares may be dematerialised or rematerialised	Monday 17 August to Friday 21 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 = 19.65310 as at 27 July 2015 (the closing rate on that date as quoted by Bloomberg), results in an equivalent interim dividend of 970.86314 SA cents per ordinary share.

South Africa Branch Register: Dividends Tax Information

South Africa Dividends Tax of 145.62947 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 825.23367 SA cents per ordinary share. The interim dividend is regarded as a 'foreign dividend' for the purposes of South Africa Dividends Tax.

At the close of business on 27 July 2015 (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 1,864,193,243 ordinary shares in issue (excluding treasury shares). The Company held 162,645,590 ordinary shares in treasury giving a total issued share capital of 2,026,838,833 ordinary shares.

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

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

OTHER CHANGES IN THE GROUP

In addition to the cash investment of US\$4.7 billion (£3.0 billion) in RAI, the proposed public tender offer to acquire up to all of the 24.7% of Souza Cruz shares not currently owned by the Group and the proposed acquisition of TDR, see page 11, the Group has the following proposed change:

Hungary – National Tobacco Distributor

On 15 December 2014, the Hungarian Government voted in new legislation whereby the distribution of tobacco products to retail would move to a single authorised concession holder. This new National Tobacco Distributor would have the right to exclusively supply the Hungarian tobacco retail universe of approximately 6,000 outlets, whilst generating a legislated margin at legislated trading terms.

On 11 June 2015, it was announced that a joint venture between Taban Trafik, the distribution company of local manufacturer Continental and the Group would be granted a concession for the exclusive distribution of tobacco products, for a period of 20 years. This will be effective from 1 November 2015.

SHARE BUY-BACK PROGRAMME

The Group suspended, with effect from 30 July 2014, its approved on-market share buy-back programme with a value of up to £1.5 billion. This was as a result of the Group's announcement on 15 July 2014 that it planned to invest cash of US\$4.7 billion (£3.0 billion) as part of RAI's proposed acquisition of Lorillard Inc.

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. In the year to 31 December 2014, 23 million shares were bought at a cost of £795 million, excluding £5 million transaction costs.

RELATED PARTY DISCLOSURES

Apart from the investment in RAI, see page 11, in the six months to 30 June 2015, there were no material changes in related parties or related party transactions. The Group's related party transactions and relationships for 2014 were disclosed on page 189 of the Annual Report for the year ended 31 December 2014.

FOREIGN CURRENCIES

The principal exchange rates used were as follows:

	Average			Closing		
	30.6.15	30.6.14	31.12.14	30.6.15	30.6.14	31.12.14
Australian dollar	1.949	1.825	1.827	2.046	1.812	1.905
Brazilian real	4.527	3.833	3.874	4.885	3.769	4.145
Canadian dollar	1.881	1.830	1.819	1.963	1.821	1.806
Euro	1.366	1.218	1.241	1.412	1.249	1.289
Indian rupee	95.782	101.454	100.529	100.150	102.839	98.424
Japanese yen	183.311	171.005	174.223	192.443	173.216	186.946
Russian rouble	88.018	58.433	63.412	87.623	58.224	93.555
South African rand	18.162	17.855	17.861	19.089	18.191	18.039
US dollar	1.524	1.669	1.648	1.573	1.710	1.559

CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

The Group has contingent liabilities in respect of litigation, taxes and guarantees in various countries, as described in Note 30 to the 2014 Annual Report and Accounts, page 190 to 205. The Group is subject to contingencies pursuant to requirements that it complies with relevant laws, regulations and standards. Failure to comply could result in restrictions in operations, damages, fines, increased tax, increased cost of compliance, interest charges, reputational damage or other sanctions. These matters are inherently difficult to quantify.

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

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

Taxes

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

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

There are disputes that may proceed to litigation in a number of countries including Brazil and South Africa, whilst a dispute in Bangladesh proceeded to litigation in 2014 but with no significant development in the six months to 30 June 2015.

Group litigation

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

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

In respect of the two class actions pending against Imperial Tobacco Canada in Quebec, judgment against Imperial Tobacco Canada and two other domestic manufacturers was released on 1 June 2015, in which the Court awarded punitive damages in the amount of CAD\$131 million and – in the case of one of the actions – compensatory damages in the amount of CAD\$15.5 billion to the amended classes of claimants. Provisional execution was also ordered against all three companies for CAD\$1.13 billion, of which Imperial Tobacco Canada was ordered to pay CAD\$743 million, within 60 days of the judgment.

Contingent liabilities and financial commitments cont...

Imperial Tobacco Canada appealed both the judgment and the provisional execution order in the Quebec Court of Appeal. On 23 July 2015, the Quebec Court of Appeal unanimously upheld the request of Imperial Tobacco Canada to cancel the provisional execution order. Imperial Tobacco Canada is proceeding with its appeal of the overall judgment.

Summary

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

Full details of the litigation against Group companies and tax disputes as at 31 December 2015 will be included in the Annual Report for the year ended 31 December 2015.

Aside from the Quebec judgment, which has been appealed, there were no material developments in the six months to 30 June 2015 that would impact on the financial position of the Group.

FRANKED INVESTMENT INCOME GROUP LITIGATION ORDER

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

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

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

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

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

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

Franked investment income group litigation order cont...

In July 2015, HMRC decided to pay to the Group around £600 million to offset part of HMRC's interest risk on the debt until the appeals conclude, the payment being approximately half the value of the Group's claim determined by the High Court. The payment to be made by HMRC is without any admission of liability pending the conclusion of the FII GLO litigation. The payment is subject to refund were HMRC to succeed in overturning the judgment on appeal.

The Group has not recognised any impact to the financial statements in the current period or the prior year, due to the uncertainty of the eventual outcome. The potential receipt of around £600 million is deemed to be a non-adjusting post balance sheet event.

FAIR VALUE MEASUREMENTS AND VALUATION PROCESSES

The Group held certain financial instruments at fair value at 30 June 2015. The definitions and valuation techniques employed for these as at 30 June 2015 are consistent with those used at 31 December 2014 and disclosed in Note 24 on pages 177 to 182 of the 2014 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 2014, 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 £50 million and £33 million respectively at 30 June 2015 (30 June 2014: £18 million and £35 million respectively and 31 December 2014: £50 million and £36 million respectively).

Level 2 assets and liabilities are shown below.

	30.6.2015	30.6.2014	31.12.2014
	Level 2	Level 2	Level 2
	£m	£m	£m
Assets at fair value			
Available-for-sale investments	-	24	-
Derivatives relating to			
– interest rate swaps	244	220	300
– cross-currency swaps	38	18	36
– forward foreign currency contracts	261	181	225
– options	7	-	-
Assets at fair value	550	443	561
Liabilities at fair value			
Derivatives relating to			
– interest rate swaps	88	88	102
– cross-currency swaps	53	25	23
– forward foreign currency contracts	160	50	124
Liabilities at fair value	301	163	249

Fair value measurement and valuation processes cont...

The fair value of borrowings is estimated to be £16,016 million (30 June 2014: £13,012 million and 31 December 2014: £13,606 million) and has been determined using quoted market prices or discounted cash flow analysis. The value of other assets/liabilities held at amortised cost are not materially different from their fair values.

NOTES AND ADDITIONAL INFORMATION

British American Tobacco is the world's second largest quoted tobacco group by global market share, with brands sold in more than 200 markets. We have five Global Drive Brands – Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans – and over 200 brands in our portfolio. We hold robust market positions in each of our regions and have leadership positions in more than 60 markets.

Disclaimers

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

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

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

PUBLICATION OF HALF-YEAR REPORT

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

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

ANNUAL REPORT: Statutory Accounts

The information for the year ended 31 December 2014 does not constitute statutory accounts as defined in s434 of the Companies Act 2006. A copy of the statutory accounts for that year 2014 has been delivered to the Registrar of Companies. The auditors' report on the 2014 accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006.

Nicola Snook
Secretary
28 July 2015

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Wednesday 30 September 2015	Payment date of 2015 interim dividend
Wednesday 28 October 2015	Interim Management Statement
Thursday 25 February 2016	Preliminary Statement 2015

CALENDAR FOR THE INTERIM DIVIDEND 2015

2015

Wednesday 29 July	Declaration of interim dividend: amount of dividend per ordinary share in both sterling and rand; applicable exchange rate and conversion date – Monday 27 July 2015; plus additional applicable information as required in respect of South Africa Dividends Tax*.
Wednesday 29 July to Friday 21 August	From the commencement of trading on Wednesday 29 July 2015 to Friday 21 August 2015 (inclusive), no removal requests in either direction between the UK main register and the South Africa branch register will be permitted.
Friday 14 August	Last Day to Trade or LDT (JSE)
Monday 17 August to Friday 21 August	From the commencement of trading on Monday 17 August 2015 to Friday 21 August 2015 (inclusive), no transfers between the UK main register and the South Africa branch register will be permitted; no shares may be dematerialised or rematerialised.
Monday 17 August	Ex-dividend date (JSE)
Thursday 20 August	Ex-dividend date (LSE)
Friday 21 August	Record date (LSE and JSE)
Wednesday 9 September	Last date for receipt of Dividend Reinvestment Plan (DRIP) elections (UK main register only)
Wednesday 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 34.

American Depositary Receipts (ADRs)

For holders of ADRs, the record date is Friday 21 August 2015 with a payment date of Monday 5 October 2015.

CORPORATE INFORMATION

Premium listing

London Stock Exchange (Share Code: BATS; ISIN: GB0002875804)
Computershare Investor Services PLC
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ, UK
tel: 0800 408 0094; +44 370 889 3159
Share dealing tel: 0370 703 0084 (UK only)
Your account: www.computershare.com/uk/investor/bri
Share dealing: www.computershare.com/dealing/uk
Web-based enquiries: www.investorcentre.co.uk/contactus

Secondary listing

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

American Depositary Receipts (ADRs)

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

Publications

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Unit 80, London Industrial Park, Roding Road, London E6 6LS, UK
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e-mail enquiries: bat@team365.co.uk or
The Company's Representative office in South Africa using the contact details shown below.

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

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