Chairman’s introduction

“During what has been a landmark year in the history of the Group, we have continued to deliver for shareholders”

Richard Burrows
Chairman

A strong set of results
During what has been a landmark year in the history of the Group, we have continued to deliver for shareholders and I am very pleased to report a strong set of results, with market share, revenue and profit all growing.

In a year when the Group became truly global following the acquisition of Reynolds American, we are now in an even better position to shape the future of our industry during a period of profound change which can deliver benefits for consumers, society and investors alike.

Acquisition of Reynolds American
The deal to acquire Reynolds American not only creates a stronger, global tobacco and Next Generation Products business, committed to delivering sustained long-term profit growth and returns, it also enables us to leverage the complementary skills from our new, enlarged workforce. The Group now has a balanced presence across emerging markets and developed markets, including the attractive US market.

We are committed to transforming tobacco by using our enhanced resources following the acquisition to deliver even greater choice for our adult consumers – across the combustible portfolio as well as those potentially reduced-risk products like vapour, heated and oral tobacco.

Additionally, increased access to a significant proportion of Group cash flows provides further support to the Company’s continued commitment to a dividend payout ratio of at least 65%. We will also retain a strong financial profile, with the Group targeting a solid investment grade credit rating through progressive deleveraging.

Quarterly dividends
The dividend in respect of 2017 is 195.2p, being an increase over 2016 of 15.2% (2016: 169.4p).

As announced in April 2017, the Group has moved to quarterly dividends with effect from 1 January 2018. In order to effect the transition to quarterly dividends, we committed to ensuring shareholders would receive an equivalent cash amount in 2018 under the quarterly dividend approach as they would have done under the previous methodology.

As part of this process, a second interim dividend of 43.6p (equivalent to 25% of the cash dividend paid in 2017) was declared in December 2017 and paid in February 2018. The Board has declared an interim dividend of 195.2p per ordinary share, payable in four equal dividend payments of 48.8p per ordinary share, to shareholders registered on the UK main register or the South Africa branch register and to ADS holders, each on the applicable record dates. The dividends receivable by ADS holders in US dollars will be calculated based on the exchange rate on the applicable payment dates.

Further information on dividends can be found on page 37 of the Financial Review and page 241 in the Shareholder information section of the Annual Report and Accounts.

Board changes
We were very pleased to welcome Lionel Nowell, III, Holly Keller Koeppel and Luc Jobin who joined our Board as Non-Executive Directors from Reynolds American and I look forward to the insights that they will provide to the Board.

I would like to thank Ann Godbehere and Dr Pedro Malan, who will be retiring from the Board at the conclusion of the forthcoming AGM on 25 April 2018. Ms Godbehere has served as a Non-Executive Director since October 2011 and Dr Malan has served as a Non-Executive Director since February 2015.

Our approach to governance
Good governance has long been a key priority for the Group. Continuing to meet all our obligations under the various frameworks with which we are bound by is not only about compliance with the law, but also about ensuring that the Group is delivering results with integrity.

With the Reynolds American acquisition now complete, not only are we a stronger business, but we are also subject to further requirements under US law. Whether through increased reporting transparency under the Sarbanes-Oxley Act, or through the Foreign Corrupt Practices Act, we have new legislation with which we have to comply.

As a result of these new requirements, our Annual Report encompasses our obligations under the UK (as required by the Companies Act, the FCA Handbook, the Financial Reporting Council and London Stock Exchange Rules), South Africa (as required by the Johannesburg Stock Exchange) and US (as required by US securities laws, the Securities and Exchange Commission rules and the New York Stock Exchange) regulations. All of these requirements have been brought into our consolidated Annual Report and Form 20-F.

Outlook
This is a very exciting time for the tobacco and nicotine industry, and for the Group in particular. The advent of new, potentially reduced-risk products that can satisfy consumers means there are new growth opportunities for the business.

While challenging conditions persist, the Group’s approach of placing the consumer at the centre of its strategy, along with a multi-category portfolio of products designed to address their varying preferences, ensures that our business is in an even stronger position to deliver long-term, sustainable growth.

Richard Burrows
Chairman