



British American Tobacco

Report on compliance with the UK Corporate Governance Code

15 March 2018



**BRITISH AMERICAN
TOBACCO**

Introduction

The principal governance rules applying to UK companies listed on the London Stock Exchange are contained in the UK Corporate Governance Code adopted in September 2014 (the Code) as amended from time to time. The Corporate Governance Statement in the Company's 2017 Annual Report (the "Corporate Governance Statement"), explains how the Principles of the April 2016 version of the Code have been applied by the Company and confirms the Board's assessment that the Company has complied with the Provisions of the Code throughout 2017. In the interests of further transparency, the Company has also voluntarily prepared this Report which summarises its approach by reference to each Principle and Provision of the Code.

Listing Rule disclosure requirements

LR 9.8.6 (5)	<p>In the case of a listed company incorporated in the United Kingdom, the following additional items must be included in its annual financial report:</p> <p>A statement of how the listed company has applied the Main Principles set out in the UK Corporate Governance Code, in a manner that would enable shareholders to evaluate how the principles have been applied;</p>	<p>Location of disclosure p.64</p>
<p>Disclosures:</p> <p>This statement is disclosed in the 'Compliance statement' box on p.64.</p>		
LR 9.8.6 (6)	<p>A statement as to whether the listed company has:</p> <p>a) Complied throughout the accounting period with all relevant provisions set out in the UKCGC; or</p> <p>b) Not complied throughout the accounting period with all relevant provisions set out in the UKCGC and if so, setting out:</p> <ul style="list-style-type: none"> ▪ Those provisions, if any it has not complied with ▪ In the case of provisions whose requirements are of a continuing nature, the period within which, if any, it did not comply with some or all of those provisions ▪ The company's reasons for non-compliance 	<p>Location of disclosure p.64</p>
<p>Disclosures:</p> <p>The Company complied throughout the accounting period with all relevant provisions set out in the UKCGC. This is disclosed in the 'Compliance statement' box on p.64.</p>		

Additional DTR disclosure requirements

DTR 7.2.5R	<p>The corporate governance statement must contain a description of the main features of the issuer's internal control and risk management systems in relation to the financial reporting process.</p> <p><i>(NB While this requirement differs from the requirement in the UK Corporate Governance Code, it is envisaged that both could be met by a single internal control statement.)</i></p>	<p>Location of disclosure p.69</p>
<p>Disclosures:</p> <p>The description is disclosed in the 'Financial reporting controls' sub-section on p.69.</p>		
DTR 7.2.6R	<p>The corporate governance statement must contain the information required by paragraph 13(2)(c), (d), (f), (h) and (i) of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) (information about share capital required under Directive 2004/25/EC (the Takeover Directive)) where the issuer is subject to the requirements of that paragraph.</p>	<p>Location of disclosure pp.71, 247, 257-258</p>
<p>Disclosures:</p> <p>13(2)(c) – major shareholders are disclosed on p.247. The name, percentage holding and type of shares held are stated;</p> <p>13(2)(d) – there are no persons holding securities with special rights with regard to control of the company;</p> <p>13(2)(f) – there are no restrictions on voting rights;</p> <p>13(2)(h)(i) – the terms of appointment and replacement of directors is disclosed on pp.71 and 258;</p> <p>13(2)(h)(ii) – rules on amending the Company's Articles of Association are disclosed in the 'Articles of Association' sub-section on p.257;</p> <p>13(2)(i) – the powers of the Company's Directors are disclosed in the 'Articles of Association' sub-section on p.258.</p>		
DTR 7.2.10R	<p>An issuer which is required to prepare a group directors' report within the meaning of section 415(2) of the Companies Act 2006 must include in that report a description of the main features of the group's internal control and risk management systems in relation to the process for preparing consolidated accounts. In the event that the issuer presents its own annual report and its consolidated annual report as a single report, this information must be included in the corporate governance statement</p>	

Additional DTR disclosure requirements

required by DTR 7.2.1R.

Disclosures:

The Group's internal control/risk management systems are disclosed in the 'Risk management and internal control' sub-sections on p.68.

Location of disclosure

p.68

A.1 The Role of the board

Ref A.1

Main principle:

Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.

Supporting principle:

The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should set the company's strategic aims, ensure that the necessary financial and human resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards and ensure that its obligations to its shareholders and others are understood and met. All directors must act in what they consider to be the interests of the company, consistent with their statutory duties.

The Board's leadership role, governance arrangements, and effectiveness are discussed in the 'Board of Directors', 'Management Board', 'Leadership and Effectiveness', 'Board Activities in 2017' and 'Board Effectiveness' sections on pp.56-64.

Ref A.1.1

Provision: The board should meet sufficiently regularly to discharge its duties effectively. There should be a formal schedule of matters specifically reserved for the board's decision.

Disclosures :

The number of Board meetings is disclosed on p.57 (twelve meetings were held in 2017). The matters reserved for the Board are summarised in the 'Board Responsibilities' bullet points on p.59.

Location of disclosure

pp.57, 59

Ref A.1.1

Provision: The annual report should include a statement of how the board operates, including a high level statement of which types of decisions are to be taken by the board and which are to be delegated to management.

DTR overlap
7.2.7R

Disclosures :

A description of how the Board operates, and the various committees established by the Board are disclosed on p.59. The committees' principal roles, the responsibilities delegated to the committees and their key activities for the year are disclosed on pp.65-66, 71-72 and 73-74 and in the individual committee terms of reference available on www.bat.com. The responsibilities of the Management Board are disclosed on p.59.

Among the key matters on which the Board alone may make decisions are the Group's business strategy, its budget, dividends, and major corporate activities. It is also responsible for reviewing the Company's risk management and internal controls systems and governance framework and for approving the Company's Standards of Business Conduct and other Group policies. Additional matters addressed annually by the Board and its key activities in 2017 are disclosed on pp.60-61.

Location of disclosure

pp.59, 60-61 65-66, 71-72 and 73-74

Ref A.1.2

Provision: The annual report should identify the chairman, the deputy chairman (where there is one), the chief executive, the senior independent director and the chairmen and members of the board committees.

DTR overlap
7.1.5R and

Disclosures :

The Chairman, Chief Executive and Senior Independent Director are identified on p.56. The chairmen and members of the various Board

Location of disclosure

pp.56, 65, 71, 91

A.1 The Role of the board

7.2.7R committees are disclosed in the 'current members' boxes in the individual committee reports on pp.65, 71 and 91.

Ref A.1.2 Provision: The annual report should set out the number of meetings of the board and its committees and individual attendance by directors.

Disclosures :

The number of Board meetings and attendance is set out on p.57. The meetings and attendance for the various Board committees are disclosed in the individual committee sections on pp.65, 71 and 91.

Location of disclosure

pp.57, 65, 71, 91

Ref A.1.3 Provision: The company should arrange appropriate insurance cover in respect of legal action against directors.

Disclosures :

Appropriate insurance cover is arranged, and is disclosed in the 'Directors' interests and indemnities' sub-section on p.238.

Location of disclosure

p.238

A.2 Division of responsibilities

Ref A.2 Main principle:

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

The roles of Chairman and Chief Executive are separate, with both having distinct and clearly defined responsibilities. This is disclosed in the 'Leadership Roles and Responsibilities' box on p.59.

Ref A.2.1 Provision: The roles of chairman and chief executive should not be exercised by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established, set out in writing and agreed by the board.

Disclosures :

The Chairman and the Chief Executive are separate individuals (Richard Burrows - Chairman, Nicandro Durante - Chief Executive), as disclosed on p.56. There is clear division of responsibilities, established in written terms of reference that have been agreed by the Board. The scope of their respective roles is disclosed on p.59.

Location of disclosure

pp.56, 59

Ref A.3 Main principle:

The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.

Supporting principle:

The chairman is responsible for setting the board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues. The chairman should also promote a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive

directors.

The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. The chairman should ensure effective communication with shareholders.

The Chairman's role is described in the 'Leadership Roles and Responsibilities' box on p.59 and the following sub-sections: 'Information and advice' on p.61; and 'Shareholder engagement' on p.63. He also speaks about his responsibilities in his introduction to the corporate governance section on p.55.

Ref A.3.1 Provision: The chairman should on appointment meet the independence criteria set out in B.1.1

Disclosures :

On appointment, the Chairman met the independence criteria set out in Provision B.1.1 of the UKCGC. The independence of all Non-Executive Directors (which include the Chairman) is disclosed in the 'Independence and Conflicts Of Interest' sub-section on p.63.

Location of disclosure

p.63

Ref A.3.1 Provision: A chief executive should not go on to be chairman of the same company.

If, exceptionally, a board decides that a chief executive should become chairman, the board should consult major shareholders in advance and should set out its reasons to shareholders at the time of the appointment and in the next annual report.

Disclosures :

The Chairman was not formerly Chief Executive. His previous experience is disclosed on p.56.

Location of disclosure

p.56

A.4 Non-executive directors

Ref A.4	Main principle: As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy. Supporting principle: Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning. The role of the Non-Executive Directors is disclosed in the 'Leadership Roles and Responsibilities' box on p.59.	
Ref A.4.1	Provision: The board should appoint one of the independent non-executive directors to be the senior independent director to provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary. Disclosures : Kieran Poynter is the Senior Independent Director, as disclosed on p.56. The principal responsibilities of his role are disclosed on p.59.	Location of disclosure pp.56, 59
Ref A.4.1	Provision: The SID should be available to shareholders if they have concerns which contact through the normal channels of chairman, chief executive or other executive directors has failed to resolve or for which such contact is inappropriate. Disclosures : The SID is available to shareholders. This is disclosed in the 'Leadership Roles and Responsibilities' box on p.59 and the 'Shareholder engagement' sub-section on p.63.	Location of disclosure pp.59, 63
Ref A.4.2	Provision: The chairman should hold meetings with the NEDs without the executive present. Disclosures : If required, the Non-Executive Directors, led by the Chairman, meet prior to meetings of the Board without the Executive Directors present. This is disclosed in the 'Collective decision-making' box on p.64.	Location of disclosure p.64
Ref A.4.2	Provision: The NEDs (led by the SID) should meet without the chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate. Disclosures : The SID receives a report on the Chairman's performance, reflecting input from all Non-Executive Directors as part of the annual Board evaluation. This is disclosed in the Board evaluation section on pp.63-64. As disclosed on p.64 the Executive and Non-Executive Directors also meet annually, led by the SID and without the Chairman present, in order to discuss the Chairman's performance.	Location of disclosure pp.63, 64
Ref A.4.3	Provision: Where directors have concerns which cannot be resolved about the running of the company or a proposed action, they should ensure that their concerns are recorded in the board minutes. On resignation, a non-executive director should provide a written statement to the chairman, for circulation to the board, if they have such concerns. Disclosures : If any Director has concerns about the running of the Company or a proposed action which cannot be resolved, such concerns will be recorded in the Board minutes. No such concerns arose in 2017. This is disclosed in the 'Collective decision-making' section on p.64.	Location of disclosure p.64

B.1 The composition of the board

Ref B.1	<p>Main principle:</p> <p>The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.</p> <p>Supporting principle:</p> <p>The board should be of sufficient size that the requirements of the business can be met and that changes to the board's composition and that of its committees can be managed without undue disruption, and should not be so large as to be unwieldy.</p> <p>The board should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking.</p> <p>The value of ensuring that committee membership is refreshed and that undue reliance is not placed on particular individuals should be taken into account in deciding chairmanship and membership of committees.</p> <p>No one other than the committee chairman and members is entitled to be present at a meeting of the nomination, audit or remuneration committee, but others may attend at the invitation of the committee.</p> <p>As at the date of the 2017 Annual Report, the Company had a Board of thirteen, of whom eleven are Non-Executive Directors, including the Chairman. Biographical and related information about the Directors, including details of relevant skills and experience, is given on the Board of Directors section on pp.56-57.</p> <p>The 2017 Board evaluation showed that the Board continues to be effective. The evaluation is disclosed in detail on pp.63-64. With regard to the spread of skills, background and experience on the Board, the evaluation confirmed that the current Directors' backgrounds provide a good mix to meet current and future needs.</p>				
Ref B.1.1	<p>Provision: The board should identify in the annual report each non-executive director it considers to be independent. The board should determine whether the director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.</p> <table border="1"><thead><tr><th data-bbox="224 766 1724 813">Disclosures :</th><th data-bbox="1724 766 2069 813">Location of disclosure</th></tr></thead><tbody><tr><td data-bbox="224 813 1724 909">The Board considers that all of the Non-Executive Directors are independent, in the sense that that they are free from any business or other relationships which could materially interfere with or appear to affect the exercise of their judgement. This is disclosed in the 'Independence and Conflicts of Interest' sub-section on p.63.</td><td data-bbox="1724 813 2069 909">p.63</td></tr></tbody></table>	Disclosures :	Location of disclosure	The Board considers that all of the Non-Executive Directors are independent, in the sense that that they are free from any business or other relationships which could materially interfere with or appear to affect the exercise of their judgement. This is disclosed in the 'Independence and Conflicts of Interest' sub-section on p.63.	p.63
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Ref B.1.1	<p>Provision: The board should state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, including if the director:</p> <ul style="list-style-type: none">• has been an employee of the company or group within the last five years;• has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;• has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;• has close family ties with any of the company's advisers, directors or senior employees;• holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;• represents a significant shareholder; or• has served on the board for more than nine years from the date of their first election. <table border="1"><thead><tr><th data-bbox="224 1276 1724 1324">Disclosures :</th><th data-bbox="1724 1276 2069 1324">Location of disclosure</th></tr></thead><tbody><tr><td data-bbox="224 1324 1724 1388">No conflicts of interest were identified in 2017 and the Board's approach and decision in relation to this can be found in the 'Conflicts of interest' sub-section on p.63.</td><td data-bbox="1724 1324 2069 1388">p.63</td></tr></tbody></table>	Disclosures :	Location of disclosure	No conflicts of interest were identified in 2017 and the Board's approach and decision in relation to this can be found in the 'Conflicts of interest' sub-section on p.63.	p.63
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Ref B.1.2	<p>Provision: Except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent.</p>				

B.1 The composition of the board

Disclosures :

The Board comprises the Chairman, two Executive Directors and ten independent Non-Executive Directors.

Location of disclosure

pp.56-57

B.2 Appointments to the board

Ref B.2

Main principle:

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

Supporting principle:

The search for board candidates should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender. The board should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board and to ensure progressive refreshing of the board.

The Nominations Committee is responsible for ensuring that the procedure for appointing new Directors is rigorous and transparent and that appointments are made on merit and against objective criteria and with due regard for the benefits of diversity, including gender diversity. It is also responsible for reviewing the structure, size and composition of the Main Board and the Management Board to ensure that both boards have an appropriate balance of skills, expertise, knowledge and (in the case of the Main Board) independence, and for reviewing the succession plans for the Executive Directors and members of the Management Board. This information is disclosed on p.71.

Ref B.2.1 **Provision: There should be a nomination committee which should lead the process for board appointments and make recommendations to the board. A majority of members of the nomination committee should be independent non-executive directors. The chairman or an independent non-executive director should chair the committee, but the chairman should not chair the nomination committee when it is dealing with the appointment of a successor to the chairmanship.**

Disclosures :

The Nominations Committee is responsible for making recommendations on suitable candidates for appointment to the Main Board and for promotion to the Management Board. It is chaired by the Chairman and its remaining membership comprises all of the Non-Executive Directors, as disclosed on p.71.

Location of disclosure

p.71

Ref B.2.1 **Provision: The nomination committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.**

Disclosures :

The Nominations Committee terms of reference are available in full on www.bat.com.

Location of disclosure

n/a

Ref B.2.2 **Provision: The nomination committee should evaluate the balance of skills, experience, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.**

Disclosures :

The process is disclosed on p.71. The Nominations Committee reviews forthcoming retirements at least once a year and considers the need to identify candidates to fill vacancies on the Board. This process includes an evaluation of the skills and experience to be looked for in those candidates to ensure continuing Board balance. See the Nominations Committee's terms of reference available on www.bat.com.

Location of disclosure

p.71

Ref B.2.3 **Provision: Non-executive directors should be appointed for specified terms subject to re-election and to statutory provisions relating to the removal of a director. Any term beyond six years for a non-executive director should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the board.**

Disclosures :

The terms of appointment are disclosed on p.72. Non-Executive Directors have terms of appointment of one year and are considered for renewal around the time of the AGM when each Director is subject to election or re-election by the shareholders. NEDs serving more than 6 years are

Location of disclosure

p.72

B.2 Appointments to the board

subject to a particularly rigorous review, as disclosed on p.72.

Ref B.2.4 DTR overlap 7.2.7R	Provision: A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments.	
	Disclosures : The work of the Nominations Committee and its key activities in 2017 are disclosed on p.71. The selection process for new Board appointments will generally involve interviews with a selection of candidates, using the services of external search firms specialising in board level recruitment to identify and shortlist appropriate candidates.	Location of disclosure p.71
Ref B.2.4	Provision: This section should include a description of the board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives.	
	Disclosures: A full description of the Board's diversity policy is included in the strategic report on p.62.	Location of disclosure p.62
Ref B.2.4	Provision: An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director. Where an external search consultancy has been used, it should be identified in the annual report and a statement made as to whether it has any other connection with the company.	
	Disclosures : As disclosed in the 2014 Annual Report, the external search consultants used for the appointment of Pedro Malan, Sue Farr and Dimitri Panayotopoulos were Odgers Berndtson and the Inzito Partnership. As disclosed in the 2016 and 2017 Annual Reports, the external search consultants used for the appointment of Marion Helmes, Luc Jobin, Holly Keller Koeppel and Lionel Nowell, III were Egon Zehnder.	Location of disclosure p.72

B.3 Commitment

Ref B.3	Main principle: All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.	
	The Nominations Committee has responsibility for assessing the time needed to fulfil the roles of Chairman, Senior Independent Director and Non-Executive Director, and ensuring that Non-Executive Directors undertake that they will have sufficient time to fulfil their duties.	
Ref B.3.1	Provision: For the appointment of a chairman, the nomination committee should prepare a job specification, including an assessment of the time commitment expected, recognising the need for availability in the event of crises.	
	Disclosures : The Chairman was appointed prior to the period under review.	Location of disclosure n/a
Ref B.3.1	Provision: A chairman's other significant commitments should be disclosed to the board before appointment and included in the annual report. Changes to such commitments should be reported to the board as they arise, and their impact explained in the next annual report.	

B.3 Commitment

	Disclosures : The Chairman was appointed prior to the period under review and his significant commitments have not changed in 2017.	Location of disclosure <i>n/a</i>
Ref B.3.2	Provision: The terms and conditions of appointment of non-executive directors should be made available for inspection by any person at the company's registered office during normal business hours and at the AGM (for 15 minutes prior to the meeting and during the meeting).	
	Disclosures : Copies of the Executive Directors' service contracts and the details of the terms of appointment of each Non-Executive Director and the Chairman are available for inspection at both the AGM and during normal business hours at the Company's registered office.	Location of disclosure <i>n/a</i>
Ref B.3.2	Provision: The letter of appointment should set out the expected time commitment. Non-executive directors should undertake that they will have sufficient time to meet what is expected of them. Their other significant commitments should be disclosed to the board before appointment, with a broad indication of the time involved and the board should be informed of subsequent changes.	
	Disclosures : Non-Executive Directors' letters of appointment set out their expected time commitment and make clear that, by accepting the appointment, they are confirming that they are able to meet the expectations of their role. They are required to disclose their other significant commitments to the Board prior to their appointment and to give notice of any subsequent changes. Further details of the Non-Executive Directors terms of appointment are disclosed on p.72. The expected time commitment in the letter of appointment is described in the 'Terms of Appointment to the Board' section on p.72.	Location of disclosure <i>p.72</i>
Ref B.3.3	Provision: The board should not agree to a full time executive director taking on more than one non-executive directorship in a FTSE 100 company nor the chairmanship of such a company.	
	Disclosures : Executive Directors are limited to one external appointment, as disclosed on p.56. Nicandro Durante is a non-executive director of Reckitt Benckiser Group plc and Ben Stevens is a non-executive director of ISS A/S.	Location of disclosure <i>p.56</i>

B.4 Development

Ref B.4	<p>Main principle: All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.</p> <p>Supporting principle: The chairman should ensure that the directors continually update their skills and the knowledge and familiarity with the company required to fulfil their role both on the board and on board committees. The company should provide the necessary resources for developing and updating its directors' knowledge and capabilities. To function effectively, all directors need appropriate knowledge of the company and access to its operations and staff.</p> <p>All Directors receive induction on joining the Board, covering their duties and responsibilities as directors. Non-Executive Directors also receive a full programme of briefings on all areas of the Company's business from the Executive Directors, members of the Management Board, the Company Secretary and other senior executives, and they may request such further information as they consider necessary.</p> <p>All Directors receive briefings designed to update their skills and knowledge on a regular basis, for example in relation to the business and on legal and regulatory requirements, and by visits to company sites.</p> <p>The 'Information and professional development' section on pp.63 includes details of the induction briefings given to Luc Jobin, Holly Keller Koeppel and Lionel Nowell, III in 2017, together with an overview of the Board market visit in 2017.</p>
Ref B.4.1	<p>Provision: The chairman should ensure that new directors receive a full, formal and tailored induction on joining the board. As part of this, directors should avail themselves of opportunities to meet major shareholders.</p> <hr/> <p>Disclosures :</p> <p>See B.4 above in relation to the Board induction. All of the Non-Executive Directors remain available to meet with major investors in order to understand their views and concerns, as disclosed in the 'Shareholder engagement' sub-section on p.63.</p> <p style="text-align: right;">Location of disclosure p.63</p>
Ref B.4.2	<p>Provision: The chairman should regularly review and agree with each director their training and development needs.</p> <hr/> <p>Disclosures :</p> <p>The Chairman meets separately with each Non-Executive Director in the latter part of each year in order to discuss their individual training needs and development plans. This is disclosed in the 'Information and Professional Development' sub-section on p.63.</p> <p style="text-align: right;">Location of disclosure p.63</p>

B.5 Information and support

Ref B.5	Main principle: The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. Supporting principle: The chairman is responsible for ensuring that the directors receive accurate, timely and clear information. Management has an obligation to provide such information but directors should seek clarification or amplification where necessary. Under the direction of the chairman, the company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development as required. The company secretary should be responsible for advising the board through the chairman on all governance matters. The Board and its Committees receive high quality, up-to-date information for review in good time ahead of each meeting, and the Company Secretary, under the direction of the Chairman, ensures good information flows within the Board and its Committees and between the Non-Executive Directors and senior management. He is also responsible for advising the Board, through the Chairman, on all governance matters. This is disclosed in detail in the 'Board effectiveness' and 'Board evaluation' sections on pp.62-64.	
Ref B.5.1	Provision: The board should ensure that directors, especially non-executive directors, have access to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. Committees should be provided with sufficient resources to undertake their duties. Disclosures : A procedure is in place for the Directors to take independent professional advice at the Company's expense should this be required. This is disclosed in the 'Information and advice' sub-section on p.61. Each of the Committees is authorised to seek any information that it requires from, and require the attendance at any of its meetings of, any Director or member of management, and all employees are expected to cooperate with any request made by the Committees. Each Committee is also authorised to obtain, at the Company's expense, outside legal or other independent professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary, as disclosed on p.61.	Location of disclosure p.61
Ref B.5.2	Provision: All directors should have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are complied with. Both the appointment and removal of the company secretary should be a matter for the board as a whole. Disclosures : All Directors have access to the advice and services of the Company Secretary. This is disclosed on p.61. The appointment and removal of the Company Secretary is a matter for the Board.	Location of disclosure p.61

B.6 Evaluation

Ref B.6	Main principle: The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. Supporting principle: Evaluation of the board should consider the balance of skills, experience, independence and knowledge of the company on the board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness. The chairman should act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the board and, where appropriate, proposing new members be appointed to the board or seeking the resignation of directors. Individual evaluation should aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for board and committee meetings and any other duties). The Board conducts a critical evaluation of its activities on an annual basis. The evaluation in 2017 internal, led by the Chairman and conducted by the Company Secretarial team. In addition, the Chairman received reports on the performance of each of the Non-Executive and Executive Directors. A report on the Chairman's own performance was prepared for the Senior Independent Director. A summary is set out at p.64.	
Ref B.6.1	Provision: The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted.	
	Disclosures : The Corporate Governance Statement describes how the performance evaluation of the Board, its Committees and individual Directors was conducted in 2017 on pp.63-64.	Location of disclosure pp.63-64
Ref B.6.2	Provision: Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years.	
	Disclosures : The Board evaluation was internally facilitated in 2017. The last external audit was conducted by Independent Audit Limited in 2016.	Location of disclosure p.64
Ref B.6.2	Provision: The external facilitator should be identified in the annual report and a statement made as to whether they have any other connection with the company.	
	Disclosures : N/A N/A for 2017.	Location of disclosure n/a
Ref B.6.3	Provision: The non-executive directors, led by the senior independent director, should be responsible for performance evaluation of the chairman, taking into account the views of executive directors.	
	Disclosures : The Board Evaluation was internally facilitated in 2017. A report on the Chairman's performance was prepared for the Senior Independent Director (SID). This is disclosed on p.64. The Exec and Non-Exec Directors meet annually, led by the SID, to discuss the Chairman's performance together, without the Chairman present. This is disclosed on p.64.	Location of disclosure p.64

B.7 Re-election

Ref B.7	Main principle: All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.
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B.7 Re-election

The Company will be submitting all eligible Directors for re-election, as disclosed on p.72.

Ref B.7.1	<p>Provision: All directors of FTSE 350 companies should be subject to annual election by shareholders. All other directors should be subject to election by shareholders at the first annual general meeting after their appointment, and to re-election thereafter at intervals of no more than three years. Non-executive directors who have served longer than nine years should be subject to annual re-election.</p>	
	<p>Disclosures :</p> <p>This is performed and disclosed in the 'Annual General Meeting' sub-section on p.72.</p>	<p>Location of disclosure <i>p.72</i></p>
Ref B.7.1	<p>Provision: The names of directors submitted for election or re-election should be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election.</p>	
	<p>Disclosures :</p> <p>The names and biographical details of the Directors are disclosed on pp.56-57.</p>	<p>Location of disclosure <i>pp.56-57</i></p>
Ref B.7.2	<p>Provision: The board should set out to shareholders in the papers accompanying a resolution to elect a non-executive director why they believe an individual should be elected. The chairman should confirm to shareholders when proposing re-election that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role.</p>	
	<p>Disclosures :</p> <p>The Chairman's letter accompanying the Notice for this year's AGM confirms that the performance of the Directors being proposed for re-election continues to be effective and that they continue to demonstrate commitment to their roles as Non-Executive Directors, including commitment of the necessary time for Board and Committee meetings and other duties.</p>	<p>Location of disclosure <i>n/a</i></p>

C.1 Financial and business reporting

Ref C.1	Main principle: The board should present a fair, balanced and understandable assessment of the company's position and prospects. Supporting principle: The board's responsibility to present a fair, balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by statutory requirements. The board should establish arrangements that will enable it to ensure that the information presented is fair, balanced and understandable. The Board is satisfied that it meets its obligation to present a fair, balanced and understandable assessment of the Company's position and prospects in the Directors' report and financial statements and in periodic reports, reports to regulators and price-sensitive announcements.	
Ref C.1.1	Provision: The directors should explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy. There should be a statement by the auditor about their reporting responsibilities. Disclosures : A summary of the Directors' responsibilities for the financial statements and their statement concerning relevant audit information is disclosed on p.99. The report of the independent auditors, which state their reporting responsibilities, is disclosed in the Financial Statements on pp.100-104.	Location of disclosure pp.99-104
Ref C.1.2	Provision: The directors should include in the annual report an explanation of the basis on which the company generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of the company. <i>Note – It would be desirable if the explanation were located in the same part of the annual report as the Business Review required by Section 417 of the Companies Act 2006. Guidance as to the matters that should be considered in an explanation of a business model is provided in paragraphs 30 to 32 of the Accounting Standard Board's Reporting Statement: Operating And Financial Review. Copies are available at: www.frc.org.uk</i> Disclosures : The Group's Business Model is disclosed on pp.18-19.	Location of disclosure pp.18-19
Ref C.1.3	Provision: In annual and half-yearly financial statements, the directors should state whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements <i>Note: FCA Listing Rule 9.8.6R (3(a)) requires that the annual report of a listed company incorporated in the United Kingdom must include a statement made by the directors that the business is a going concern, together with supporting assumptions or qualifications as necessary, that has been prepared in accordance with provision C.1.3 of the UKCGC and with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (2014).</i> Disclosures : The Directors' statement that it is appropriate to continue to adopt the going concern basis in preparing the accounts is disclosed on p.41.	Location of disclosure p.41

Principle 3 Directors should make balanced, proportionate and clear disclosures about going concern for the financial statements to give a true and fair view. Directors should disclose if the period that they have reviewed is less than twelve months from the date of approval of annual and half-yearly financial statements and explain their justification for limiting their review period.

Guidance:

Para 79 Addressing the requirements of the FRSSE, UK GAAP, IFRS, CA 2006 and the Listing Rules that apply to a company may lead it to address going concern and liquidity risk in different sections of its annual report and financial statements. This may create difficulties for investors and other stakeholders in seeking to obtain a clear, comprehensive and cohesive understanding of the issues facing the company.

Para 80 It is helpful to investors and other stakeholders if all of these disclosures are brought together in a single place in the company's financial statements. It may be necessary to provide a cross reference to that single place from other parts of the annual report. If it is not practicable to provide all of the information in a single place, it is still helpful if the key disclosures are brought together by way of a note that includes appropriate cross references to information in the financial statements and from the financial statements to information included elsewhere in the annual report.

Para 81 Balanced, proportionate and clear disclosures would include the following components:

- the key disclosures or references thereto;
- the particular factors which the directors have considered in reaching a conclusion on going concern; and
- a concluding statement as to whether the use of the going concern basis of accounting is appropriate, explaining the basis of that conclusion.

Disclosures :

This is disclosed in the Financial review on pp.33-41.

Location of disclosure

pp.33-41

C.2 Risk management and internal control

Ref C.2	<p>Main principle:</p> <p>The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.</p> <p><i>The Board is responsible for determining the nature and extent of the significant risks that the Group is willing to take to achieve its strategic objectives and for maintaining sound risk management and internal control systems.</i></p> <p>The Company maintains its system of risk management and internal control with a view to safeguarding shareholders' investment and the Company's assets. The Corporate Governance Statement identifies the main features of the risk management processes and system of internal control operated within the Group. They have been in place throughout 2011 and remain in place to date. They do not cover the Group's associate undertakings.</p>
Ref C.2.1 (Partial DTR overlap 7.2.5R)	<p>Provision: The directors should confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. The directors should describe those risks and explain how they are being managed or mitigated.</p> <p><i>[Refer to FRC Guidance on Risk Management and Internal Control and Related Business Reporting on how to address C.2 and C.2.1]</i></p> <p><i>Note – while the DTR requirement differs from the UKCGC requirement, it is envisaged that both could be met by a single internal control statement.</i></p>
	<p>Disclosures :</p> <p>As disclosed on p.48, the Directors have carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These principal risk factors and the activities being undertaken to mitigate them are set out on pp.48-54.</p> <p style="text-align: right;">Location of disclosure pp.48-54</p>
Ref C.2.2	<p>Provision: Taking account of the company's current position and principal risks, the directors should explain in the annual report how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate. The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.</p> <p><i>Note: FCA Listing Rule 9.8.6R (3)(b) requires that the annual report of a listed company incorporated in the United Kingdom must include a longer-term viability statement prepared in accordance with provision C.2.2 of the UKCGC and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (2014).</i></p>
	<p>Disclosures :</p> <p>The Directors have assessed that the appropriate period of longer-term viability for the Group is three years, as disclosed in the Viability Statement on p.48. The Viability Statement includes an explanation of how the directors have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate. It also includes a statement that the directors have a reasonable expectation that the Group can continue in operation over the three year longer-term viability period.</p> <p style="text-align: right;">Location of disclosure p.48</p>
Ref C.2.3	<p>Provision: The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls.</p>
	<p>Disclosures :</p> <p>The Group's risk management processes and system of internal control, as disclosed on pp.68-70, and the reports that they give rise to, enable the Board and the Audit Committee to monitor the risk management and internal control framework on a continuing basis throughout the year and to review its effectiveness at the year end.</p> <p>The Board, with advice from the Audit Committee, has completed its annual review of the effectiveness of the system of risk management and internal control for the period since 1 January 2017. No significant failings or weaknesses were identified and the Board is satisfied that, where specific areas for improvement have been identified, processes are in place to ensure that the necessary remedial action is taken and that progress is monitored. The Board is satisfied that the system of risk management and internal control is in accordance with the Financial</p> <p style="text-align: right;">Location of disclosure pp.68-70</p>

C.2 Risk management and internal control

Reporting Council's 'Guidance on Risk Management and Internal Control and Related Business Reporting' published in 2014. This is disclosed on p.70.

C.3 Audit Committee and auditors

Ref C.3	Main principle: The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor. The Board's obligation to establish formal and transparent arrangements for considering how it should apply the corporate reporting and risk management and internal control principles, and for maintaining an appropriate relationship with the Company's external auditors, KPMG LLP, is met through the Audit Committee.	
Ref C.3.1 DTR overlap 7.1.1R	Provision: The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. Disclosures : At the date of the 2017 Report, the Audit Committee comprises five independent Non-Executive Directors as disclosed on p.65.	Location of disclosure p.65
Ref C.3.1 DTR overlap 7.1.1R	Provision: The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience. Disclosures : Kieran Poynter, Marion Helmes and Lionel Nowell, III have recent and relevant financial experience, as disclosed on p.65.	Location of disclosure p.65
Ref C.3.2 DTR overlap 7.1.3R	Provision: The main role and responsibilities of the audit committee should be set out in written terms of reference and should include: <ul style="list-style-type: none">• To monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;• To review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems;• To monitor and review the effectiveness of the company's internal audit function;• To make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;• To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration, relevant UK professional and regulatory requirements;• To develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and• To report to the board on how it has discharged its responsibilities. Disclosures : The Audit Committee's terms of reference are summarised on p.65, and are available in full on www.bat.com.	Location of disclosure p.65

C.3 Audit Committee and auditors

Ref C.3.3	Provision: Terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available.	
	Disclosures : See C.3.2 above. The Corporate Governance Statement describes the work of the Audit Committee and its key activities in 2017.	Location of disclosure p.65
Ref C.3.4	Provision: Where requested by the board, the audit committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.	
	Disclosures : This is covered in the Audit Committee's terms of reference which state that "where requested by the Main Board, the Committee shall review the content of the Company's Annual Report and Accounts in order to advise the Main Board on whether, taken as a whole, the Annual Report is fair, balanced and understandable".	Location of disclosure n/a
Ref C.3.5	Provision: The audit committee should review arrangements by which staff may, in confidence, raise concerns about possible improprieties, in matters of financial reporting or other matters. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.	
	Disclosures : As disclosed in the 'Whistleblowing' sub-section on p.70, the Group's whistleblowing policy enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal, provided that such concerns are not raised in bad faith. Details of this policy are set out in the Company's Standards of Business Conduct. The policy is supplemented by local procedures throughout the Group and at the Group's London headquarters, which provide staff with additional guidance and enable them to report matters in a language with which they are comfortable. The Audit Committee receives quarterly reports on whistleblowing incidents. It remains satisfied that the policy and the procedures in place incorporate arrangements for the proportionate and independent investigation of matters raised and for the appropriate follow-up action.	Location of disclosure p.70
Ref C.3.6	Provision: The audit committee should monitor and review the effectiveness of the internal audit activities	
	Disclosures : As disclosed on p.65, the Audit Committee is responsible for monitoring and reviewing the effectiveness of the Company's internal audit function. It meets regularly with management and with the internal and external auditors to review the effectiveness of internal controls and business risk management, and receives reports from the Head of Audit and Business Risk, the Head of Group Security and the Group's regional audit and CSR committees and corporate audit committee, as disclosed in the 'Key activities in 2017' section on pp.65-66.	Location of disclosure pp.65-66
Ref C.3.6	Provision: Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.	
	Disclosures : n/a	Location of disclosure n/a
Ref C.3.7	Provision: The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditor.	

C.3 Audit Committee and auditors

	Disclosures : The Audit Committee makes recommendations to the Board, for approval by shareholders, on the appointment of the Company's external auditors. KPMG LLP was appointed as the Company's external auditor in 2015 and the Audit Committee carries out an annual assessment of the Group's internal auditor as disclosed on p.68.	Location of disclosure p.68
Ref C.3.7	Provision: If the board does not accept the audit committee's recommendation, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.	
	Disclosures : The Board accepted the Audit Committee's recommendation.	Location of disclosure n/a
Ref C.3.8	Provision: A separate section of the annual report should describe the work of the audit committee in discharging its responsibilities. The report should include:	
DTR	Disclosures :	Location of disclosure
Overlap	The work of the Audit Committee is described on p.65.	p.65
7.1.5R		
and		
7.2.7R		
Ref C.3.8	Provision: The significant issues that the committee considered in relation to the financial statements, and how these issues were addressed.	
	Disclosures : Significant accounting judgements considered by the Committee in relation to the 2017 accounts are disclosed on p.66.	Location of disclosure p.66
Ref C.3.8	Provision: An explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted and advance notice of any retendering plans.	
	Disclosures : The Audit Committee assesses annually the qualification, expertise and resources, and independence of the Group's external auditors and the effectiveness of the audit process, taking due consideration of the FRC guidance for Audit Committees on the evaluation of external auditor quality, including culture, skills, character, knowledge, quality control and judgement. This information is disclosed under the 'Annual assessment' sub-section on p.67. p.67 discloses the appointment date of KPMG LLP.	Location of disclosure p.67
Ref C.3.8	Provision: If the auditor provides non-audit services, auditor objectivity and independence is safeguarded.	
	Disclosures : The Audit Committee has an established policy aimed at safeguarding and supporting the independence and objectivity of the Group's external auditors. Details of the policy are disclosed in the 'Group Auditor Independence Policy' sub-section on p.67.	Location of disclosure p.67

FRC Guidance on Audit Committees (2012) – Following this guidance is not a requirement of the UKCGC, but is designed to assist directors in applying the provisions of the UKCGC. Clients are encouraged to make the disclosures suggested by this guidance, though it is not covered by the comply-or-explain reporting mechanism.

4.26 The audit committee section of the annual report should include an explanation of how the committee has assessed the effectiveness of the external audit process and of the approach taken to the appointment or reappointment of the external auditor, in order that shareholders can understand why it recommended either to reappoint or change the auditors. It should also include information on the length of tenure of the current audit firm, when a tender was last conducted, and any contractual obligations that acted to restrict the audit committee's choice of external auditors.

Disclosures :

This is disclosed on p.67.

Location of disclosure

p.67

4.46 The explanation required by UKCGC C.3.7 should:

- describe the work of the committee in discharging its responsibilities;
- set out the audit committee's policy on the engagement of the external auditor to supply non-audit services in sufficient detail to describe the elements in paragraph 4.30 [see below], or cross-refer to where this information can be found on the company's website;
- set out, or cross refer, to the fees paid to the auditor for audit services, audit related services and other non-audit services; and
- if the auditor provides non-audit services, other than audit related services, explain for each significant engagement, or category of engagements:
 - what the services are;
 - why the audit committee concluded it was in the interests of the company to purchase them from the external auditor (rather than another supplier); and
 - how auditor objectivity and independence has been safeguarded.

Disclosures :

The work of the Committee is disclosed in the 'Key activities of the Audit Committee in 2017' on pp.65-66. The fees paid to the Group's external auditor and an explanation of non-audit services provided is disclosed on p.67.

Location of disclosure

pp.65-67

4.39 The audit committee should set and apply a formal policy specifying the types of non-audit service (if any):

- for which the use of the external auditor is pre-approved (i.e. approval has been given in advance as a matter of policy, rather than the specific approval of an engagement being sought before it is contracted);
- for which specific approval from the audit committee is required before they are contracted; and
- from which the external auditor is excluded.

Disclosures :

This policy is disclosed on p.67.

Location of disclosure

p.67

5.2 The audit committee section in the annual report should include, inter alia:

- A summary of the role of the committee
- The names and qualifications of all members of the audit committee during the period
- The number of audit committee meetings
- A report on the way the audit committee has discharged its responsibilities

Disclosures :

Summary roles, name of members, number of meetings, and key activities are disclosed on pp.65-66

Location of disclosure

pp.65-66

D.1 The level and components of remuneration

Ref D.1	<p>Main principle:</p> <p>Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.</p> <p>Supporting principle:</p> <p>The remuneration committee should judge where to position their company relative to other companies. But they should use such comparisons with caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvement in corporate and individual performance, and should avoid paying more than is necessary. They should also be sensitive to pay and employment conditions elsewhere in the group, especially when determining annual salary increases.</p> <p>The Company's Remuneration Report, set out in its 2017 Annual Report, is prepared in accordance with the relevant provisions of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and the relevant requirements of the Listing Rules of the UK Listing Authority.</p> <p>The remuneration package comprises core fixed elements (base salary, pension and other benefits) designed to recognise the skills and experience of the Executive Directors and to ensure current and future market competitiveness in attracting talent. In addition, two performance-based variable elements (a single cash and share incentive annual bonus plan (IEIS) and a single long term incentive scheme (LTIP)) are designed to motivate and reward the delivery of growth to shareholders on a long-term sustainable basis. The performance-based elements form an approximate range of 75-85% of the total remuneration packages.</p> <p>Detailed information on the level of remuneration is set out in the Annual Report on Remuneration on pp.75-98.</p>	
Ref D.1.1	<p>Provision: In designing schemes of performance-related remuneration for executive directors, the remuneration committee should follow the provisions in Schedule A to this Code. Schemes should include provisions that would enable the company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so.</p> <p>Disclosures :</p> <p>Detailed information on the components of performance-related remuneration is set out in the Remuneration Policy Report on pp.75-98, including provisions on clawback and malus.</p>	<p>Location of disclosure pp.75-98</p>
Ref D.1.2	<p>Provision: Where a company releases an executive director to serve as a non-executive director elsewhere, the remuneration report should include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is.</p> <p>Disclosures :</p> <p>As disclosed on p.96, the Company recognises the opportunities and benefits that accrue to both the Company and its Executive Directors who serve as Non-Executive Directors (NEDs) on the Boards of comparable companies. Each Executive Director is limited to one external appointment, with the permission of the Board. Any fees from such appointments are retained by the individual in recognition of the increased level of personal commitment required. Nicandro Durante is a NED of Reckitt Benckiser Group plc (FTSE 100 company) and Ben Stevens is a NED of ISS A/S. This information and details of the fees received by them in this regard is disclosed on p.89.</p>	<p>Location of disclosure p.89, 96</p>
Ref D.1.3	<p>Provision: Levels of remuneration for non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for non-executive directors should not include share options or other performance-related elements. If, exceptionally, options are granted, shareholder approval should be sought in advance and any shares acquired by exercise of the options should be held until at least one year after the non-executive director leaves the board. Holding of share options could be relevant to the determination of a non-executive director's independence (as set out in provision B.1.1).</p> <p>Disclosures :</p> <p>As disclosed on p.98, NED fees are reviewed annually and the quantum and structure of NED's remuneration will primarily be assessed against the same remuneration comparator group companies used for setting the remuneration of Executive Directors. NEDs are generally reimbursed for the cost of travel and related expenses incurred by them as Directors of the Company in respect of attendance at Board, Committee and General meetings. In addition, it is the policy of the Board that the partners of the Executive Directors and Non-Executive Directors may, from</p>	<p>Location of disclosure p.98</p>

D.1 The level and components of remuneration

time to time, accompany the Directors to overseas or UK based Board meetings and otherwise at hospitality functions during the year. Non-Executive Directors are also eligible for general practitioner 'walk-in' medical services. In the instances where such expenses are classified by HMRC as a benefit to the Director, the Company will meet, as appropriate, the personal income tax liability that arises. They receive no other pay or benefits. NEDs do not participate in the BAT share schemes, bonus schemes or incentive plans and are not members of any Group pension plan.

Ref D.1.4 Provision: The remuneration committee should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination. The aim should be to avoid rewarding poor performance. They should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss.

Disclosures :

This information is disclosed on p.97. Each Executive Director's contract includes a provision for a compensation payment in lieu of notice. In the case of underperformance, termination payments are capped.

Location of disclosure

p.97

Ref D.1.5 Provision: Notice or contract periods should be set at one year or less. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period.

Disclosures :

This is disclosed on p.72. All of the current Directors are employed on a one-year rolling contract. On appointment of a new Executive Director, contracts with an initial period of longer than one year may be agreed, which will then reduce to a one year rolling contract after the expiry of the initial period. As disclosed p.74, wherever the Remuneration Committee exercises its discretion in relation to an Executive Director, it will disclose the rationale for doing so in its Annual Report on Remuneration the following year.

Location of disclosure

pp.72, 74

Remuneration – D.2 Procedure

Ref D.2 **Main principle:**

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

Supporting principle:

The remuneration committee should take care to recognise and manage conflicts of interest when receiving views from executive directors or senior management, or consulting the chief executive about its proposals. The remuneration committee should also be responsible for appointing any consultants in respect of executive director remuneration. The chairman of the board should ensure that the committee chairman maintains contact as required with its principle shareholders about remuneration.

The Remuneration Committee is responsible for agreeing and proposing the Remuneration Policy (covering salary, benefits, performance-based variable rewards and, pensions) for shareholder approval. It also has responsibility for determining, within the terms of the agreed Policy, the specific remuneration packages for the Chairman, the Executive Directors and the members of the Management Board, both on appointment and on review.

Neither the Chairman nor the Executive Directors play any part in determining his or her remuneration. During the year ended 31 December 2017, both the Chief Executive and the Chairman were consulted and invited to attend meetings of the Committee, except when his own remuneration was under consideration. In determining remuneration for the year, the Committee consulted the Chief Executive, the HR Director and the Group Head of Reward. The Committee's remuneration consultants, Deloitte LLP, also attend meetings of the Committee.

Where appropriate, major institutional shareholders are consulted on significant changes to the structure of the Directors' remuneration.

Ref D.2.1 Provision: The board should establish a remuneration committee of at least three, or in the case of smaller companies two, independent non-executive directors. In addition the company chairman may also be a member of, but not chair, the committee if he or she was considered independent on appointment as chairman.

Remuneration – D.2 Procedure

	Disclosures : There is a remuneration committee which consists of Non-Executive Directors only. The Chairman is not a member of the Remuneration Committee. The current members of the Committee are disclosed on p.91.	Location of disclosure p.91
Ref D.2.1	Provision: The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. Where remuneration consultants are appointed, a statement should be made available of whether they have any other connection with the company. <i>Note – in order to comply with DTR 7.2.7R this information will need to be included in the corporate governance statement.</i>	
DTR overlap 7.2.7R	Disclosures : The terms of reference are summarised on p.91 and are available at www.bat.com.	Location of disclosure p.91
Ref D.2.1	Provision: Where remuneration consultants are appointed, they should be identified in the annual report and a statement should be made as to whether they have any other connection with the company.	
	Disclosures : The external advisers to the Remuneration Committee as well as any other connections they have to the Company are disclosed on p.92.	Location of disclosure p.92
Ref D.2.2	Provision: The remuneration committee should have delegated responsibility for setting remuneration for all executive directors and the chairman, including pension rights and any compensation payments. The committee should also recommend and monitor the level and structure of remuneration for senior management. The definition of ‘senior management’ for this purpose should be determined by the board but should normally include the first layer of management below board level.	
	Disclosures : This is consistent with the Remuneration Committee’s terms of reference, as summarised on p.91.	Location of disclosure p.91
Ref D.2.3	Provision: The board itself or, where required by the Articles of Association, the shareholders should determine the remuneration of the non-executive directors within the limits set in the Articles of Association. Where permitted by the Articles, the board may however delegate this responsibility to a committee, which might include the chief executive.	
	Disclosures : This is disclosed in the ‘Remuneration Table – Chairman and Non-Executive Directors’ sub-section on p.98 which sets out the key elements of the remuneration for the Non-Executive Directors and the Chairman as approved by the shareholders at the AGM on 26 April 2017.	Location of disclosure p.98
Ref D.2.4	Provision: Shareholders should be invited specifically to approve all new long-term incentive schemes (as defined in the Listing Rules) and significant changes to existing schemes, save in the circumstances permitted by the Listing Rules.	
	Disclosures : There are no proposed changes to the LTIP which was approved by shareholders on 26 April 2017 at the AGM.	Location of disclosure n/a

E.1 Dialogue with shareholders

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Ref E.1	<p>Main principle:</p> <p>There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.</p> <p>Supporting principle:</p> <p>Whilst recognising that most shareholder contact is with the chief executive and finance director, the chairman should ensure that all directors are made aware of their major shareholders' issues and concerns.</p> <p>The board should keep in touch with shareholder opinion in whatever ways are most practical and efficient.</p> <p>The Board maintains a dialogue with shareholders, directed towards ensuring a mutual understanding of objectives. Its primary contact, facilitated by the Head of Investor Relations, is through the Executive Directors, but the Chairman also contacts major shareholders periodically and in advance of the Annual General Meeting each year in order to understand their views on the Company and to ensure that their views are communicated to the Board as a whole.</p>	
Ref E.1.1	<p>Provision: The chairman should ensure that the views of shareholders are communicated to the board as a whole. The chairman should discuss governance and strategy with major shareholders.</p>	
	<p>Disclosures :</p> <p>It is disclosed on p.63 that the Chairman contacts major shareholders periodically and in advance of the Annual General Meeting.</p> <p>The Board evaluation section sets out on pp.63-64 that the Chairman and the Chairman of the Remuneration Committee met together with institutions and key shareholders to discuss corporate governance and remuneration.</p>	<p>Location of disclosure</p> <p>pp.63-64</p>
Ref E.1.1	<p>Provision: Non-executive directors should be offered the opportunity to attend scheduled meetings with major shareholders and should expect to attend meetings if requested by major shareholders.</p>	
	<p>Disclosures :</p> <p>This is disclosed in the 'Shareholder engagement' sub-section on p.63.</p>	<p>Location of disclosure</p> <p>p.63</p>
Ref E.1.1	<p>Provision: The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.</p>	
	<p>Disclosures :</p> <p>The Senior Independent Director attends the AGM, is available to meet with major shareholders at their request, as disclosed in the 'Shareholder engagement' sub-section on p.63.</p>	<p>Location of disclosure</p> <p>p.63</p>
Ref E.1.2	<p>Provision: The board should state in the annual report the steps they have taken to ensure that the members of the board, and, in particular, the non-executive directors, develop an understanding of the views of major shareholders about the company, for example through direct face-to-face contact, analysts' or brokers' briefings and surveys of shareholder opinion.</p>	
	<p>Disclosures :</p> <p>Twice a year the Head of Investor Relations presents a report to the Board on investor relations activities, identifying the key issues raised by institutional shareholders. In addition, the Board receives a report at each of its meetings on any changes to the holdings of the Company's main institutional shareholders, as disclosed in the 'Board reporting on shareholder views' sub-section on p.63.</p>	<p>Location of disclosure</p> <p>p.63</p>

E.2 Constructive use of the AGM

E.2 Constructive use of the AGM

Ref E.2	<p>Main principle:</p> <p>The board should use general meetings to communicate with investors and to encourage their participation.</p> <p>The Board uses the AGM as an opportunity for shareholder engagement and, in particular, for the Chairman to explain the Company's progress and, along with other members of the Board, to answer any questions. All Directors attend the AGM unless illness or pressing commitments prevent them from doing so. This is disclosed in the Shareholder engagement section on p.63.</p>	
Ref E.2.1	<p>Provision: At any general meeting, the company should propose a separate resolution on each substantially separate issue, and should, in particular, propose a resolution at the AGM relating to the report and accounts.</p> <p>For each resolution, proxy appointment forms should provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The proxy form and any announcement of the results of a vote should make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.</p>	
	<p>Disclosures :</p> <p>This information is disclosed in the 'Annual General Meeting' section on p.72 and on p.257. Information about the 2018 Annual General Meeting is disclosed at p.262</p> <p>At the Annual General Meeting, the Company provides for the vote on each resolution to be by poll rather than by show of hands. This provides for greater transparency and allows the votes of all shareholders to be counted, including those cast by proxy. The Notice of Meeting identifies each resolution which is to be proposed at the Annual General Meeting, including in relation to the Annual Report. A separate resolution is proposed on each substantially different issue.</p> <p>For each resolution, the proxy appointment form provides shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The proxy form and all announcements of the voting results make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.</p>	<p>Location of disclosure</p> <p>pp.72, 257, 262</p>
Ref E.2.2	<p>Provision: The company should ensure that all valid proxy appointments received for general meetings are properly recorded and counted.</p> <p>For each resolution, where a vote has been taken on a show of hands, the company should ensure that the following information is given at the meeting and made available as soon as reasonably practicable on a website which is maintained by or on behalf of the company:</p> <ul style="list-style-type: none">• the number of shares in respect of which proxy appointments have been validly made;• the number of votes for the resolution;• the number of votes against the resolution; and• the number of shares in respect of which the vote was directed to be withheld. <p>When, in the opinion of the board, a significant proportion of votes have been cast against a resolution at any general meeting, the company should explain when announcing the results of voting what actions it intends to take to understand the reasons behind the vote result.</p>	
	<p>Disclosures:</p> <p>The Company, through its Registrars, ensures that all valid proxy appointments received are properly recorded and counted.</p> <p>The Chairman announces the provisional voting results at the Annual General Meeting, and the final results are announced on the same day through the Regulatory News Service and on www.bat.com. All resolutions at the 2017 AGM were passed without a significant proportion of votes against. Details of the votes cast in relation to the Remuneration Report at the 2017 AGM are disclosed on p.93.</p>	<p>Location of disclosure</p> <p>p.93</p>
Ref E.2.3	<p>Provision: The chairman should arrange for the chairmen of the audit, remuneration and nomination committees to be available to answer questions at the AGM and for all directors to attend.</p>	
	<p>Disclosures:</p> <p>As disclosed on p.63, the chairmen of the Audit and Remuneration Committees are normally available at the Annual General Meeting to take any</p>	<p>Location of disclosure</p> <p>p.63</p>

E.2 Constructive use of the AGM

relevant questions, and all other Directors attend, unless illness or another pressing commitment precludes them from doing so.

Ref E.2.4 Provision: The company should arrange for the Notice of the AGM and related papers to be sent to shareholders at least 20 working days before the meeting. For other general meetings this should be at least 14 working days in advance.

Disclosures:

The Notice of the AGM is available on www.bat.com and is sent to shareholders 20 working days before the meeting.

Location of disclosure

n/a