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ANALYSIS OF PROFIT FROM OPERATIONS AND DILUTED EARNINGS PER SHARE BY SEGMENT

For six months ended 30 June	2022					2021		
	Reported	Adj Items[1]	Adjusted	Exchange	Adjusted at CC[2]	Reported	Adj Items[1]	Adjusted
	£m	£m	£m	£m	£m	£m	£m	£m
Profit from Operations								
U.S.	**2,801**	**335**	**3,136**	**(218)**	**2,918**	2,570	196	2,766
APME	**155**	**656**	**811**	**10**	**821**	769	99	868
AmSSA	**759**	**10**	**769**	**(15)**	**754**	694	15	709
Europe	**(37)**	**966**	**929**	**68**	**997**	874	18	892
Total Region	**3,678**	**1,967**	**5,645**	**(155)**	**5,490**	4,907	328	5,235
Net finance costs	**(817)**	**41**	**(776)**	**40**	**(736)**	(756)	34	(722)
Associates and joint ventures	**200**	**62**	**262**	**(7)**	**255**	233	(7)	226
Profit before tax	**3,061**	**2,070**	**5,131**	**(122)**	**5,009**	4,384	355	4,739
Taxation	**(1,123)**	**(99)**	**(1,222)**	**18**	**(1,204)**	(1,055)	(64)	(1,119)
Non-controlling interests	**(79)**	**(1)**	**(80)**	**3**	**(77)**	(79)	(1)	(80)
Hybrid bonds	**(23)**	**-**	**(23)**	**-**	**(23)**			
Profit attributable to shareholders	**1,836**	**1,970**	**3,806**	**(101)**	**3,705**	3,250	290	3,540
Diluted number of shares (m)	**2,273**		**2,273**		**2,273**	2,296		2,296
Diluted earnings per share (pence)	**80.8**		**167.4**		**163.0**	141.6		154.2

Notes to the analysis of profit from operations above:
(1) Adjusting items represent certain items which the Group considers distinctive based upon their size nature or incidence.
(2) CC: constant currency – measures are calculated based on a re-translation, at the prior year's exchange rates, of the current year's results of the Group and, where applicable, its segments.

NET FINANCE COSTS

Net finance costs for the six months to 30 June 2022 were £817 million, compared to £756 million in the same period in 2021, with the increase largely due to the increase in interest rates and weakening of sterling against other major hard currencies.

On a constant currency basis, and after adjusting for items including the revaluation of foreign currency balances held in Russia that, due to the proposed transfer of the Group's Russian business (described on page 19), do not qualify for hedge accounting (£28 million) and the finance costs related to the Franked Investment Income Group Litigation Order (FII GLO, as described on page 45), adjusted net finance costs were 2.0% higher at £736 million (compared to £722 million).

SHARE OF POST-TAX RESULTS OF ASSOCIATES AND JOINT VENTURES

The Group's share of post-tax results of associates and joint ventures decreased from £233 million to £200 million which is largely due to an impairment of £59 million (net of tax) in respect of the investment in Organigram due to the current fair value by reference to Organigram's share price. This was partly offset by the performance of the Group's main associate, ITC Ltd (ITC) in India. The Group's share of ITC's post-tax results was 15.9% higher at £262 million (30 June 2021: £226 million), with the prior period affected by the impact of COVID-19 in India.

Excluding adjusting items of £62 million charge (30 June 2021: £7 million gain), which largely related to the impairment (net of tax) of the Group's investment in Organigram (£59 million net of tax) as described on page 35, partly offset by a deemed gain on dilution of the Group's holding in ITC (£8 million), as described on page 36, and the impact of translational foreign exchange, on an adjusted constant rate basis, the Group's share of post-tax results from associates and joint ventures increased 13.0% to £255 million.

TAXATION

The tax rate in the Income Statement was 36.7% for the six months to 30 June 2022, compared to 24.1% for the six months to 30 June 2021 (31 December 2021: 23.9%). The Group's tax rate is affected by the impact of the adjusting items referred to on pages 33 to 36 and by the inclusion of the share of associates' and joint ventures' post-tax profit in the Group's pre-tax results.

Excluding these, the Group's underlying tax rate for subsidiaries reflected in the adjusted earnings per share on page 40 was 25.1% in the six months ended 30 June 2022 (six months to 30 June 2021: 24.8%; Year to 31 December 2021: 24.7%). A full reconciliation from taxation on ordinary activities to the underlying tax rate is provided on page 58.

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EARNINGS PER SHARE

Basic earnings per share were down 42.9% at 81.2p (30 June 2021: 142.1p) as the growth in operational performance, notably related to the improved contribution from New Categories, and the translational foreign exchange tailwind (due to the relative weakness of sterling, particularly against the US dollar) was more than offset by the impact of charges recognised in respect of Russia, Quantum, the alleged historical breach of sanctions (described on page 20), combined with increases in net finance costs, lower share of associates and a higher effective tax rate.

Before adjusting items and including the dilutive effect of employee share schemes, adjusted diluted earnings per share increased 8.6% to 167.4p (30 June 2021: 154.2p). Excluding the impact of translational foreign exchange, adjusted diluted earnings per share were 5.7% higher at 163.0p, at constant rates of exchange. For a full reconciliation of diluted earnings per share to adjusted diluted earnings per share, at constant rates, see page 59.

CASH FLOW

	For six months ended 30 June			For year ended 31 December
	2022	2021	Change	2021
	£m	£m	%	£m
Net cash generated from operating activities	**3,221**	2,254	+42.9%	9,717
Operating cash flow conversion	**77.3%**	66.7%	+10.6 ppts	104%
Adjusted cash generated from operations	**2,137**	1,334	+60.2%	7,312
Free cash flow – after payment of dividends	**(199)**	(1,163)	-82.9%	2,543

	As at 30 June			As at 31 December
	2022	2021	Change	2021
	£m	£m	%	£m
Borrowings	**44,875**	45,010	-0.3%	39,658
Adjusted net debt	**39,990**	40,490	-1.2%	35,548

In the Group's cash flow, prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and UK-adopted international accounting standards and presented on page 30, net cash generated from operating activities increased by 42.9% to £3,221 million (30 June 2021: £2,254 million), largely due to a reduction in inventory in Australia , lower inventory in Denmark (as the prior period was impacted by inventory movements ahead of the introduction of plain packaging), and improved cash collections in Japan.

The Group paid £2,476 million in dividends to shareholders during the period (30 June 2021: £2,443 million).

During 2022, the Group commenced a £2 billion share buyback programme. In the six months to 30 June 2022, the Group paid £1,256 million to acquire 37,657,945 shares. Total net cash was an inflow of £755 million compared to an outflow of £190 million in the six months ended 30 June 2021.

Adjusted cash generated from operations, operating cash conversion and free cash flow (before and after dividends paid to shareholders)

Adjusted cash generated from operations was 60.2% higher at £2,137 million (30 June 2021: £1,334 million), an increase of 64.2% at constant rates of exchange, with the Group's operating cash conversion rate (based upon adjusted profit from operations and defined on page 59) at 77% (30 June 2021: 67%). These improvements were largely due to a reduction in inventory in Australia and Denmark, and improved cash collections in Japan.

The Group continues to target an operating cash flow conversion ratio of at least 90% in 2022.

Free cash flow (before the payment of dividends), as defined on page 60, increased from £1,280 million (for the six months ended 30 June 2021) to £2,277 million (for the six months ended 30 June 2022) largely driven by the increase in net cash generated from operations described above.

Free cash flow (after dividends paid to shareholders), as defined on page 60, was an outflow of £199 million compared to an outflow of £1,163 million in the same period in 2021. For a full reconciliation of net cash generated from operating activities to free cash flow before and after dividends, see page 60.

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BORROWINGS AND NET DEBT

Borrowings were £44,875 million at 30 June 2022, compared to £45,010 million at 30 June 2021 and £39,658 million at 31 December 2021. The increase from the end of 2021 was largely due to higher short-term borrowings (including commercial paper) due to short-term funding needs in the period, issuance of an aggregate principal amount of US$2.5 billion bonds in March 2022 which partly offsets the repayment of bonds on their maturity in H1 2022 and the depreciation of sterling against the US dollar and Euro. The movement in the Group's borrowings is described on page 38.

The Group remains confident about its ability to access the debt capital markets successfully and reviews its options on a continuing basis.

The Group defines net debt as borrowings including related derivatives, less cash and cash equivalents and current investments held at fair value. Closing net debt was £40,806 million (30 June 2021: £41,251 million; 31 December 2021: £36,302 million). A reconciliation of borrowings to net debt is provided below.

	As at 30 June			As at 31 December
	2022	2021	Change	2021
	£m	£m	%	£m
Borrowings	**(44,875)**	(45,010)	-0.3%	(39,658)
Derivatives in respect of net debt	**(70)**	409	-117.1%	91
Cash and cash equivalents	**3,568**	3,014	+18.4%	2,809
Current investments held at fair value	**571**	336	+69.9%	456
Net debt	**(40,806)**	(41,251)	-1.1%	(36,302)
Maturity profile of net debt:				
Net debt due within one year	**(867)**	(5,144)	-83.1%	(792)
Net debt due beyond one year	**(39,939)**	(36,107)	+10.6%	(35,510)
Net debt	**(40,806)**	(41,251)	-1.1%	(36,302)

The movement in net debt includes the free cash outflow, after payment of dividends to shareholders, in the six months ended 30 June 2022 of £199 million (30 June 2021: £1,163 million outflow; 31 December 2021: £2,543 million inflow) as described on page 15. Also impacting the carrying value of net debt at the balance sheet date are:

- other cash outflows related to share schemes and investing activities of £206 million (30 June 2021: £165 million; 31 December 2021: £150 million);
- purchase of own shares (£1,256 million) as part of the Group's announced £2 billion share buy-back programme for 2022;
- other non-cash movements of £32 million (mainly related to interest accruals);
- the classification of certain balances as held-for-sale related to the proposed sale of the Group's operations in Russia (in 2022) of £229 million and Iran (in 2021) of £100 million; and
- foreign exchange headwind related to the revaluation of foreign currency denominated net debt balances of £2,582 million (30 June 2021: £373 million tailwind; 31 December 2021: £124 million headwind).

These movements can be summarised as follows:

	As at 30 June		As at 31 December
	2022	2021	2021
	£m	£m	£m
Opening net debt	**(36,302)**	(40,241)	(40,241)
Free cash inflow (after dividends)	**(199)**	(1,163)	2,543
Other cash payments	**(206)**	(165)	(150)
Net proceeds from the issue of perpetual hybrid bonds	**-**	-	1,681
Purchase of own shares	**(1,256)**	-	-
Other non-cash movements	**(32)**	45	(11)
Transferred to held-for-sale	**(229)**	(100)	-
Foreign exchange	**(2,582)**	373	(124)

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BORROWINGS AND NET DEBT cont...

Adjusted net debt

The Group also adjusts net debt for the purchase price allocation adjustment to the debt, included within borrowings, acquired as part of the acquisition of Reynolds American Inc. This is an accounting adjustment and does not reflect the enduring repayment of the instrument. The Group Management Board believes that this additional measure, which is used internally to assess the Group's financial capacity, is useful to the users of the financial statements in helping them to see how the Group's financial capacity has changed over the year. The adjusted net debt position is provided below:

	As at 30 June			As at 31 December
	2022	2021	Change	2021
	£m	£m	%	£m
Net debt	**(40,806)**	(41,251)	-1.1%	(36,302)
Purchase price allocation (PPA) adjustment to acquired debt	**816**	761	+7.3%	754
Adjusted net debt	**(39,990)**	(40,490)	-1.2%	(35,548)
Exchange	**2,528**			
Adjusted net debt at constant rates	**(37,462)**	(40,490)	-7.5%	

SHARE BUY-BACK PROGRAMME

On 11 February 2022, the Company announced a programme to buy-back up to £2 billion of BAT ordinary shares.

As at 30 June 2022, the Group had repurchased 37,657,945 ordinary shares. Total consideration for the repurchase of shares was £1.3 billion which is recorded within retained earnings.

DIVIDENDS

On 11 February 2022, the Company announced that the Board had declared an interim dividend of 217.8p per ordinary share of 25p for the year ended 31 December 2021, payable in four equal quarterly instalments of 54.45p per ordinary share in May 2022, August 2022, November 2022 and February 2023.

The May 2022 quarterly dividend was paid to shareholders on the UK main register and South Africa branch register on 4 May 2022 and to holders of American Depositary Shares (ADSs) on 9 May 2022. The three remaining quarterly dividends will be paid to shareholders registered on either the UK main register or the South Africa branch register, and to holders of ADSs, each on the applicable record dates set out in the table below.

Event (2022 unless stated)	Payment No. 2	Payment No. 3	Payment No. 4
Record date (JSE, LSE and NYSE)	8 July	30 September	23 December
Payment date (LSE and JSE)	17 August	10 November	2 February 2023
ADS payment date (NYSE)	22 August	15 November	6 February 2023

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FOREIGN CURRENCIES

The principal exchange rates used to convert the results of the Group's foreign operations to sterling for the purposes of inclusion and consolidation within the Group's financial statements are indicated in the table below. Where the Group has provided results "at constant rates of exchange" this refers to the translation of the results from the foreign operations at rates of exchange prevailing in the prior period – thereby eliminating the potentially distorting impact of the movement in foreign exchange on the reported results.

The principal exchange rates used were as follows:

	Average for the period ended			As at		
	30 June		31 December	30 June		31 December
	2022	2021	2021	**2022**	2021	2021
Australian dollar	**1.806**	1.800	1.832	**1.766**	1.840	1.863
Bangladeshi taka	**113.361**	117.710	117.023	**113.521**	117.112	116.212
Brazilian real	**6.601**	7.476	7.421	**6.351**	6.932	7.544
Canadian dollar	**1.651**	1.731	1.724	**1.567**	1.711	1.711
Chilean peso	**1,072.376**	1,000.702	1,045.816	**1,137.776**	1,005.848	1,153.991
Euro	**1.187**	1.153	1.164	**1.162**	1.165	1.191
Indian rupee	**98.891**	101.849	101.702	**95.908**	102.683	100.684
Japanese yen	**159.379**	149.701	151.124	**164.989**	153.327	155.972
Romanian leu	**5.870**	5.650	5.727	**5.746**	5.737	5.894
Russian rouble	**101.992**	103.178	101.388	**66.491**	100.920	101.592
South African rand	**20.001**	20.183	20.335	**19.896**	19.725	21.617
Swiss franc	**1.225**	1.262	1.258	**1.163**	1.277	1.234
US dollar	**1.298**	1.389	1.376	**1.214**	1.381	1.354

RISKS AND UNCERTAINTIES

The Board carried out a robust assessment of the principal risks and uncertainties facing the Group for the period, including those that would threaten its business model, future performance, solvency, liquidity and viability. As part of that assessment, the Board reviewed all the risks, both individually and collectively, including as they relate to the impact of COVID-19 on the performance of the Group (which continues to impact our operations at certain times and in certain geographies) and the impact of the conflict in Ukraine on the Group.

All Group risks are managed individually and collectively by management and overseen by the Board. The principal risks remain broadly unchanged. The principal risks facing the Group are summarised under the headings of:

- Competition from illicit trade;
- Tobacco, New Categories and other regulation interrupts the growth strategy;
- Disputed taxes, interest and penalties;
- Inability to develop, commercialise and deliver the New Categories strategy;
- Litigation;
- Significant increases or structural changes in tobacco, nicotine and New Categories related taxes;
- Foreign exchange rate exposures;
- Geopolitical tensions;
- Solvency and liquidity; and
- Injury, illness or death in the workplace.

A summary of the other risks for the Group which are not considered principal risks but are monitored by the Board through the Group's risk register is set out on pages 317-339 of the Group's Annual Report and Form 20-F for the year ended 31 December 2021. These and all of the Group's risks should be read in the context of the forward-looking statements on page 63 of this Half-Year Report.

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