

# Our year in numbers

Group cigarette volumes,  
excluding associates (billion)

**694** -1.6%

Revenue at constant  
exchange rates<sup>2</sup> (£million)

**15,999** +4%

Revenue (£million)

**15,190** -1%

Profit from operations<sup>1</sup> (£million)

**5,412** +15%

Adjusted profit from operations<sup>1</sup> at  
constant exchange rates<sup>2</sup> (£million)

**5,970** +8%

Free cash flow (£million)

**3,259** -2%

Basic earnings per share (pence)

**198.1** +26%

Adjusted diluted earnings  
per share<sup>1</sup> (pence)

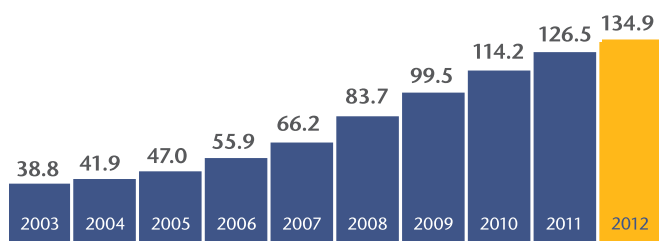
**207.5** +7%

Dividends per share (pence)

**134.9** +7%

## 10 year dividend per share (pence)

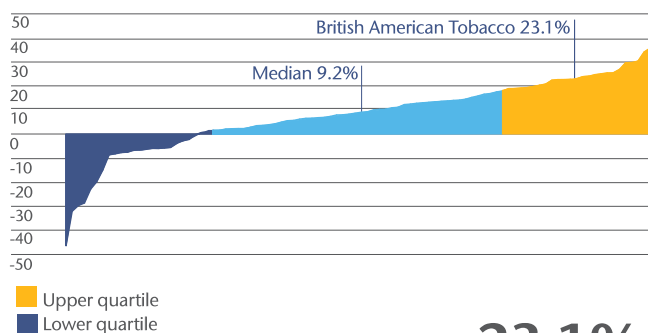
1 January 2003 to  
31 December 2012



**134.9** +7%

## Total shareholder return (annual %)

FTSE 100 – 1 January 2010 to 31 December 2012  
The FTSE 100 comparison is based on three months' average values



**23.1%**

### Notes:

- Adjusted profit from operations is derived after excluding the adjusting items from the profit from operations. These adjusting items include restructuring and integration costs, amortisation and impairment of trademarks and similar intangibles, goodwill impairment and the Fox River provision.
- Constant currency provides the information based on a re-translation, at prior year exchange rates, of the current year information.

# Financial review (continued)

## Adjusted profit from operations (£ million)

2012	5,681	+ 3%
2011	5,519	+11%
2010	4,984	+12%

## Adjusted diluted EPS (pence)

2012	207.5	+ 7%
2011	194.6	+11%
2010	175.7	+15%

## Operating margin (%)

2012	37.4
2011	35.8
2010	33.5

## Associates

The Group's share of the post-tax results of associates, included at the pre-tax profit level under International Financial Reporting Standards (IFRS), increased by £22 million to £692 million, after net adjusting costs of £5 million (2011: £11 million income).

In 2012, the Group's share of the adjusted post-tax results of associates increased by 6% to £697 million (2011: £659 million), or 10% at constant rates.

The adjusted contribution from Reynolds American increased by 4% to £448 million. At constant rates of exchange the increase was 3%. The Group's adjusted contribution from its associate in India, ITC, was £237 million, up 9%. At constant rates of exchange, the contribution would have been 23% higher than last year.

The adjusting items are explained in note 5 of the Financial Statements.

## Profit before tax

Profit before tax was up £717 million at £5,648 million, reflecting the higher profit from operations, lower net finance costs and the increased contribution from associates.

## Effective tax rate

The tax rates in the income statement of 27.0% in 2012 and 31.6% in 2011 are affected by the inclusion of the share of associates' post-tax profit in the Group's pre-tax results and by adjusting items.

The underlying tax rate for subsidiaries was 30.6% in 2012 and 31.2% in 2011. The decrease is the result of a change in the mix of profits.

## Earnings per share

Basic earnings per share for 2012 were 198.1p, up 26% (2011: 157.1p). With the distortions that adjusting items can cause in profit, as well as the potential dilutive effect of employee share schemes, earnings per share are best viewed on the basis of adjusted diluted earnings per share. The calculation of this measure is explained in note 7 of the financial statements.

On this basis, the adjusted diluted earnings per share were 207.5p, a 7% increase over 2011, mainly as a result of the strong operating performance, offset by the adverse movement in exchange rates. When the impact of exchange rate movements are excluded, the adjusted diluted earnings per share (at constant rates) would have been 217.8p, a 12% increase on 2011.

## Dividends

The Group's policy is to pay dividends of 65% of long-term sustainable earnings, calculated with reference to the adjusted diluted earnings per share. Interim dividends are calculated as one-third of the total dividends declared for the previous year.

With the recommended final dividend of 92.7p, the total dividends per share for 2012 are 134.9p, up 7% on the prior year. Under IFRS, the recommended final dividend in respect of a year is only provided in the accounts of the following year. Therefore, the 2012 accounts reflect the 2011 final dividend and the 2012 interim dividend amounting to 130.6p (£2,538 million) in total (2011: 119.1p – £2,358 million). The table on page 33 shows the dividends declared in respect of 2012 and 2011.

Dividends are declared and payable in sterling except for those shareholders on the branch register in South Africa, whose dividends are payable in rand. A rate of exchange of £:R = 13.34290 as at 26 February 2013, the closing rate for that day as quoted by Bloomberg, results in an equivalent final dividend of 1236.88683 SA cents per ordinary share. Further details of the final dividend (key dates and the South Africa branch register) are set out in the other statutory and regulatory information section.

### Dividends declared

	2012		2011	
	Pence per share	£m	Pence per share	£m
Ordinary shares				
Interim	42.2	815	38.1	738
Final	92.7	1,789	88.4	1,723
	134.9	2,604	126.5	2,461

### Treasury operations

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

The Board reviews and agrees the overall treasury policies and procedures, delegating appropriate oversight to the Finance Director and the Treasury function. The policies include a set of financing principles and key performance indicators.

Clear parameters have been established, including levels of authority, on the type and use of financial instruments to manage the financial risks facing the Group. Such instruments are only used if they relate to an underlying exposure; speculative transactions are expressly forbidden under the Group's treasury policy. The Group's treasury position is monitored by a Corporate Finance Committee chaired by the Finance Director. Treasury operations are subject to periodic independent reviews and audits, both internal and external.

The Group continues to maintain investment-grade credit ratings and was upgraded during 2012 by Standard & Poor (S&P). As at 31 December 2012, the ratings from Moody's/S&P were Baa1 (positive outlook)/A- (stable outlook) (end 2011: Baa1/BBB+). The strength of the ratings has underpinned debt issuance and the Group is confident of its ability to successfully access the debt capital markets.

All contractual borrowing covenants have been met and none are expected to inhibit the Group's operations or funding plans.

### Underlying tax rate (%)

2012	30.6
2011	31.2
2010	30.2

### Dividends per share declared (pence)

2012	134.9 + 7%
2011	126.5 + 11%
2010	114.2 + 15%

### Free cash flow per share as a ratio of adjusted diluted EPS (%)

2012	81
2011	86
2010	92

### Liquidity

It is the policy of the Group to maximise financial flexibility and minimise refinancing risk by issuing debt with a range of maturities, generally matching the projected cash flows of the Group and obtaining this financing from a wide range of providers. The Group targets an average centrally managed debt maturity of at least five years with no more than 20% of centrally managed debt maturing in a rolling 12-month period. As at 31 December 2012, the average centrally managed debt maturity was 7.2 years (2011: 7.0 years) and the highest proportion of centrally managed debt maturing in a single rolling 12-month period was 19.3% (2011: 18.3%).

It is Group policy that short-term sources of funds (including drawings under both the US\$2 billion commercial paper programme and the £1 billion euro commercial paper programme) are backed by undrawn committed lines of credit and cash. At 31 December 2012, no commercial paper was outstanding (31 December 2011: £85 million).

In the year ended 31 December 2012, the Group continued with transactions in the capital markets.

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