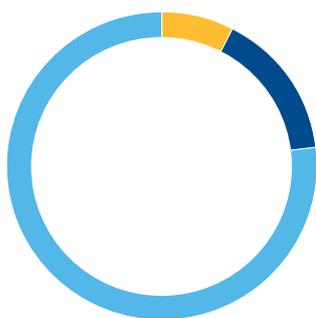


**GOVERNANCE**

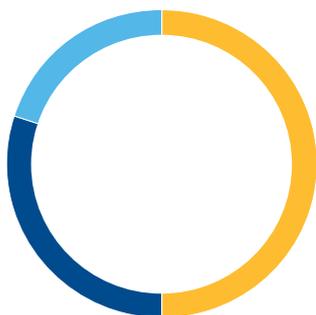
# Board effectiveness

## Balance of Non-Executive Directors and Executive Directors



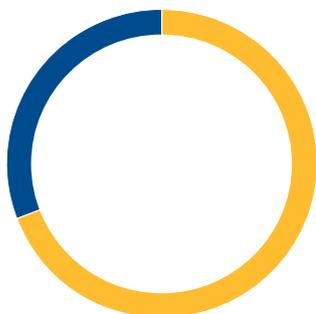
Chairman	1
Executive Directors	2
Independent Non-Executive Directors	10

## Length of tenure of Non-Executive Directors



0-3 years	5
3-6 years	3
6-9 years	2

## Gender split of Directors



Male	9
Female	4

**Note:**  
 The above graphics reflect the composition of the Board as at the date of this report.

## Balance and diversity

### A balanced Board

Our Non-Executive Directors come from broad industry and professional backgrounds, with varied experience and expertise aligned to the needs of our business. Women constitute over 30% of our Board. Short biographies of the Directors, including details of relevant skills and experience, and nationalities, are set out in the Board of Directors pages in this section (pages 48 and 49).

### Promoting diversity

The Board appreciates the benefit of diversity in all its forms, within its own membership and at all levels of the Group. The Board promotes diversity and is encouraging initiatives to improve gender diversity in senior management roles. You can read our diversity policy, including the proportion of women in our total workforce and in senior management, in the winning organisation section of our Strategic Report on pages 24 and 25.

## Independence and conflicts of interest

### Independence

The Board considers all Non-Executive Directors to be independent, as they have not previously been employed in Group management roles and are free from any business or other relationships that could interfere materially with, or appear to affect, their judgement.

### Conflicts of interest

The Board has formal procedures for managing conflicts of interest in accordance with the Companies Act 2006 and may authorise situational conflicts under the Company's Articles of Association. Directors are required to give advance notice of any conflict issues to the Company Secretary, and these are considered either at the next Board meeting or, if the timing requires it, at a meeting of the Board's Conflicts Committee.

Each year, the Board considers afresh all previously authorised situational conflicts. Directors are excluded from the quorum and vote in respect of any matters in which they have an interest. No material conflicts were reported by Directors in 2014.

## Information and professional development

### Board induction

On joining the Board, all Directors receive a full induction. 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. The expected time commitment from Non-Executive Directors for their induction is formalised in our standard letter of appointment and visits to an overseas factory location and the Group's R&D facilities in Southampton are required elements.

Following his appointment in 2014, Savio Kwan received a comprehensive induction including a visit to the Group's R&D facilities in the UK and participation in a market visit to Mexico at the end of March 2014. Induction programmes will also be put in place for Sue Farr, Pedro Malan and Dimitri Panayotopoulos, who were appointed to the Board in February 2015. These will include briefings covering the Group's strategy, organisational structure, business functions (including next-generation products), statutory reporting cycle, financing principles, IT strategy and legal and regulatory issues. They will also attend sessions on corporate governance, internal control and risk management.

### Training and development

Non-Executive Directors are encouraged to attend meetings of the Group's regional Audit and CSR committees, so that they have a good sense of the Group's regional operations as well as the Group's Corporate Audit Committee to gain a better understanding of the Group's central functions such as IT, Finance and Corporate and Regulatory Affairs. The Non-Executive Directors are also each invited to attend a scheduled market visit alongside a Regional Director, so that they gain exposure to the Group's business on the ground. In 2014, Non-Executive Directors visited Romania and Mexico. In addition, a Board meeting was held in Hong Kong.

The Board and its Committees receive regular briefings on legal and regulatory developments. The Board was also briefed on changes to the UK Corporate Governance Code which will impact the reporting cycle for 2015 and the transitional timetable and steps required in identifying and managing a change in external auditors introduced by EU regulation.

The Chairman meets each Non-Executive Director individually, in the latter part of each year, to discuss their individual training and development plans.

 For the Board's access to information and advice see 'Information and advice' in the Other Corporate Disclosures section on page 110

## Shareholder engagement

### Commitment to dialogue

The Board is committed to high-quality dialogue with shareholders. The Executive Directors lead in this respect, facilitated by the Head of Investor Relations. The Chairman also contacts major shareholders periodically, and in advance of the AGM each year, so he can hear their views and ensure that they are communicated to the Board. The Senior Independent Director and other Non-Executive Directors are available to meet with major shareholders on request. In 2014, Richard Tubb met with an institutional investor following one such request. In early 2015, both the Remuneration Committee Chairman and the Chairman met a number of key shareholders to engage further in relation to the Group's Remuneration Policy. Details of the rationale for proposing changes before the third anniversary of the Policy agreed last year are set out in the Remuneration Report. Following careful consideration of shareholders' responses in relation to these proposals, however, no policy changes are being put forward this year.

### Annual programme

A full programme of engagement with shareholders, potential investors and analysts, in the UK and overseas, is undertaken each year by the Head of Investor Relations. On occasions he is accompanied by one or more Executive Directors and Management Board members. Every two years, combined investor meetings are held over two days with the Management Board in attendance. The next such meeting will be in 2015.

In 2014, as part of the annual programme, 495 meetings were held with over 310 of the Company's institutional shareholders in 20 countries, spanning five continents. In terms of percentage shareholding, the Company engaged with the owners of the majority of its shares. The Chairman had 11 personal meetings with major shareholders in the year. Regular investor presentations were also given, and these together with the results presentations are all published on [www.bat.com](http://www.bat.com). All results presentations are available to shareholders by webcast.

In addition, there is a micro site on [www.bat.com](http://www.bat.com) for debt investors, with comprehensive bondholder information on credit ratings, debt facilities, outstanding bonds and maturity profiles.

The AGM is an opportunity for further shareholder engagement and for the Chairman to explain the Company's progress and, along with other members of the Board, to answer any questions. All Directors attend, unless illness or pressing commitments prevent them. All Directors attended the AGM in 2014, with the exception of Karen de Segundo who was attending the AGM of another company of which she is a Non-Executive Director. Details of our 2015 AGM are set out in the Other Corporate Disclosures section.

Twice a year, the Head of Investor Relations reports to the Board on investor relations activities, identifying key issues raised by institutional shareholders as well as a commentary on share price performance. The Board receives a report at each meeting on any changes to the holdings of the Company's main institutional shareholders.

### Topics of discussion

This year, shareholders were keen to hear more about the Group's NGP strategy and the development of the e-cigarette sector. Developments in industry regulation, including the impact of plain packaging in Australia and the potential impact of more plain packaging regulation in other countries was also of interest, as was the continued roll-out of the Group's new Operating Model and Global IT solution. Macro economic issues, specifically with regard to developments in the Eurozone continue to be key issues for institutional investors. At a market level, continued concerns were expressed about pricing and excise and the impact on the Group, especially with regard to illicit trade.

## Board evaluation

### Evaluation process

In 2014, the Board conducted an internal review of its effectiveness and that of its Committees, the Executive and Non-Executive Directors, and the Chairman. This followed an external review that had been undertaken in 2013. The evaluation was conducted through questionnaires and in-depth interviews with each Board member by the Company Secretary.

A report was prepared for the Board on the results of this exercise, and the principal Committees also considered reports on their own effectiveness, drawn from questionnaires relating specifically to those Committees as well as from comments made in the Board Report.

While the Board and each of its Committees are considered to be fully effective, fresh action points were identified. A summary of the findings is set out in the accompanying table. Our progress against 2014 action points is also included in the summary.

### Constructive feedback

In addition, the Chairman received reports from the Company Secretary on the performance of each of the Executive and Non-Executive Directors. A report on the Chairman's own performance was prepared for the Senior Independent Director. Individual feedback was given by the Chairman to all Board members. All Board members continued to perform well, and each was considered to be making an effective contribution to the Board.

 For disclosures required by paragraph 7.2.6 of the Disclosure and Transparency Rules and the Companies Act 2006 see the Other Corporate Disclosures section on pages 108–114

GOVERNANCE

## Board effectiveness continued

### Board evaluation 2014

#### Leadership

##### Findings

The Board is considered to have a clear understanding of the Group's business and the environment within which it operates;

Market visits are particularly appreciated as a useful tool, allowing Non-Executive Directors to see the Group's strategy in action;

The Board understands the regulatory environment within which it operates and receives excellent briefings in this area; and

On strategy, the focus on the long term, particularly on next-generation products, strategic M&A and evolving markets was applauded.

##### Action for 2015

The more recently appointed Non-Executive Directors need to become more familiar with the Company and the industry. Detailed induction plans, as well as market visits, will ensure that all Non-Executive Directors are made aware of the principal challenges and opportunities facing the Group.

##### Progress in 2014

In 2014, the format of market visits was changed to allow the Directors to gain greater insight into a specific aspect of the business. The Chairman, Savio Kwan, Gerry Murphy and Richard Tubb visited Mexico, a commercial and manufacturing hub for the local market and for export to Canada. Christine Morin-Postel, Ann Godbehere and Kieran Poynter accompanied the Chairman on a visit to Romania and reviewed its direct sales delivery operation as well as the support services function for finance.

#### Oversight

##### Findings

The Board as a whole is effective in tracking delivery of strategy and in providing the necessary oversight;

The Board has a good view of the Group's activities through participation in the Audit/CSR Committee framework, and risk is monitored by the Board in this context; and

The formal risk management process highlights the key risks to the business.

The Non-Executive Directors appreciate that there are also other opportunities for them to consider risks, including at the regional Audit and CSR committees, Corporate Audit Committee and at the in-depth strategy days.

##### Action for 2015

How the Group sets its appetite for risk will be reviewed in the context of the Financial Reporting Council's revised Guidance on Risk Management which was issued in September 2014; and

Time with individual members of the Management Board will further develop the Board's confidence in effective oversight, as well as helping with succession planning.

##### Progress in 2014

Improved risk mapping, including an annual review of stakeholder maps by the CSR Committee, is a good example of how the overall risk profile is being tracked; and

The format change to the market visits has also helped to improve oversight, providing effective deep dives into specific areas of the business, including a focus on relevant CSR and sustainability issues.

#### Meetings

##### Findings

The annual Board programme is considered to be comprehensive, agendas to be properly prioritised and papers are of a high quality; and

Issues are debated openly and fully with searching and robust questions posed to management, when necessary.

##### Action for 2015

Regional/functional reviews that deal with specific areas of the Group's business will be included in the Board programme.

##### Progress in 2014

Non-Executive Director feedback on end market visits has become a regular agenda item at Board meetings and generates and informs debates relating to business activities; and

Stakeholder mapping is now incorporated as an annual item on the agenda of the CSR Committee.

#### Collective decision making

The Chairman seeks a consensus at Board meetings but, if necessary, decisions are taken by majority. If any Director has concerns on any issue that cannot be resolved, such concerns are noted in the Board minutes. No such concerns arose in 2014.

When required, the Non-Executive Directors, led by the Chairman, meet prior to Board meetings and without the Executive Directors present. The Executive and the Non-Executive Directors also meet annually, led by the Senior Independent Director and without the Chairman present, in order to discuss the Chairman's performance.

## Support

### Findings

The Non-Executive Directors expressed their satisfaction with the induction process and were comfortable with the ongoing level of training and support they receive in performing their duties;

The Non-Executive Directors receive sufficient, relevant and up-to-date information about the Group's business on a regular basis; and

Directors are briefed regularly on their legal duties, the relevant areas of corporate governance and opportunities are given for further training. As mentioned on page 55, the Chairman meets each Non-Executive Director individually, each year, to discuss their training and development plans.

### Action for 2015

Responsiveness and effectiveness to be maintained; and

Using feedback from Sue Farr, Pedro Malan and Dimitri Panayotopoulos following their induction, the induction process will be refined and improved further.

### Progress in 2014

Guidance and support has been provided throughout the year, as required, in the operation of the Board software system and settings have been amended to allow a library of Board papers to be generated.

## Composition

### Findings

All Directors are aware of the current Board refreshment exercise and the need for additional Non-Executive Directors with specific skills and experience; and

At Board level the Group has a relatively good gender balance. However, the Board is concerned to see improved diversity at Executive and senior management level.

### Action for 2015

Planning will commence for the next Board refreshment, which is likely to be required in 2016.

### Progress in 2014

Recognising the strength of the Board's culture and dynamics, the composition matrix considered by the Nominations Committee factored in the balance of individual approaches and styles in addition to specific experience. Recent Board appointments have taken this into account;

The Board throughout 2014 continued to scrutinise plans to promote gender diversity in senior management roles and diversity in its broadest sense across the business; and

Significant progress was made reviewing potential candidates during 2014 leading to the appointment in February 2015 of: Pedro Malan (expertise in finance and extensive experience in Brazil and Latin America); Sue Farr (brand marketing and communications experience); and Dimitri Panayotopoulos (FMCG experience at senior executive level).

## Working together

### Findings

There is an even contribution by all Directors across the variety of topics discussed at Board meetings;

Differences of opinion have been discussed candidly at Board level and a better understanding of different perspectives obtained;

Feedback on the views of institutional investors is accurate and all stakeholder views are taken into account in the Board's decision making; and

Shareholder views have been particularly influential over the Board's consideration of remuneration proposals.

### Action for 2015

The Non-Executive Directors are committed to building good relationships with all members of the Management Board, including those recently appointed, as this will help them with succession planning; and

Market visits and continued attendance by Non-Executive Directors at regional Audit and CSR committees and the Corporate Audit Committee will continue to improve their understanding of the business.

### Progress in 2014

The Chairman held a number of meetings with the Non-Executive Directors without the Executive Directors present throughout the year. These helped to facilitate better working relationships between members of the Board.