



British American Tobacco
VOLUNTARY STATEMENT ON UK
AND US CORPORATE GOVERNANCE

26 March 2007



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1. Background

The primary corporate governance system that applies to British American Tobacco p.l.c. (the "Company"), in common with other companies listed on the London Stock Exchange, is the Combined Code on Corporate Governance (the "Combined Code"). The Corporate Governance Statement, at pages 72 to 78 of the Company's 2006 Report and Accounts (the "Corporate Governance Statement"), explains how the principles of the Combined Code have been applied by the Company. The Company's board of directors (the "Board") considers that the Company met its obligations as a company listed on the London Stock Exchange with regard to the Combined Code in 2006.

The Company's American Depositary Receipts ("ADRs"), each of which represents two Ordinary Shares of the Company, are traded on an unlisted basis on the American Stock Exchange (the "AMEX") in New York. For historical reasons, however, the Company is not listed on the AMEX and is not required to file an Annual Report on Form 20-F with the US Securities and Exchange Commission (the "SEC"). Instead, the Company submits to the SEC all material information which it has made public including through submission to the London Stock Exchange and distribution to shareholders, for example, interim, quarterly and year-end results and appointments to the Board.

Accordingly, unlike many non-US companies with ADRs, the Company is not required to comply with the US corporate governance regime as established by:

- (a) the Sarbanes-Oxley Act of 2002 and the rules adopted by the SEC under that Act (the "SOX Rules"); and
- (b) the Listing Standards, Policies and Requirements of the American Stock Exchange (the "AMEX Rules").

Nevertheless, the Company believes that it is in the interests of its shareholders in general and its ADR holders in particular to explain the principal differences and common areas between the corporate governance practices which it applies (as described in the Corporate Governance Statement), which meet the requirements of the Combined Code, and those which it would be required to apply if it were subject to the SOX Rules and, for the purposes of the AMEX Rules, a US company listed on the AMEX. The purpose of this Voluntary Statement is to provide that explanation.

This Statement is made voluntarily and is not intended to comply with the requirements of the SOX Rules or the AMEX Rules. Nothing in this Statement, whether expressly, impliedly or otherwise, should be taken as providing the disclosures required under those Rules and no liability whatsoever shall attach to the Company, its directors, officers or employees in consequence of this Statement not complying with the requirements of either the SOX Rules or the AMEX Rules.

2. Board of Directors

The AMEX Rules require that a listed company has sufficient independent directors such that they form a majority of the board. The Company considers that each Director identified by the Board as being independent for the purposes of the Combined Code would also be independent under the AMEX Rules.

Excluding the Chairman, over half of the members of the Company's Board are Non-Executive Directors who have been determined by the Board to be independent. The Company therefore meets the requirements of the Combined Code, which provides that at least half of the members of the Board should meet such criteria.

The AMEX Rules require the directors of a listed company to meet at least quarterly. Under the Combined Code, the board should meet sufficiently regularly to discharge its duties effectively. The Company's Board held seven scheduled meetings in 2006 and is scheduled to hold the same number of meetings in 2007.

The AMEX Rules require the independent directors of a listed company to meet at least once annually in "Executive Session" (meaning without the non-independent or executive directors being present). This is not a requirement under the Combined Code and, in 2006, there was no such meeting. The Senior Independent Director, however, leads a meeting of the Non-Executive Directors without the Chairman present at least annually.

3. Audit Committee

The AMEX Rules require that a company's audit committee meets at least quarterly and that it has a charter that complies with specified requirements, including the applicable SOX Rules regarding audit committee independence and other matters. The SOX Rules require that it has authority to engage external advisers. If it were subject to the SOX and AMEX Rules, the Company's Audit Committee (the "Audit Committee") would meet these requirements in all material respects. The Audit Committee's terms of reference are available through the Company's website.

The SOX Rules impose disclosure requirements not contained in the Combined Code in respect of the independence of members of a company's audit committee. However, no situation arose in 2006 that would have required the Company to make disclosure regarding any lack of independence on the part of any member of the Audit Committee, had it been subject to the SOX Rules.

Under the SOX Rules, a company's board should determine either that at least one member of the audit committee is an "audit committee financial expert" (in which case, disclosure of the name of the financial expert and whether that person is independent under the AMEX Rules is required), or that there is no "audit committee financial expert" on the audit committee (in which case, an explanation of why there is no such expert is required). The AMEX Rules require all members of the audit committee to be able to read and understand fundamental financial statements and that at least one member be "financially sophisticated". The Board considers that, were it subject to the SOX and AMEX Rules, the Chairman of its Audit Committee, who has the "recent and relevant financial experience" required by the Combined Code, would meet the SOX standard of an "audit committee financial expert", that he would be considered "financially sophisticated" under the AMEX Rules and that all members of the Audit Committee would meet the requirement of the AMEX Rules of being able to read and understand fundamental financial statements.

The SOX Rules require that a company's audit committee be responsible for the appointment of its external auditors or, if the requirements of domestic law require that shareholders vote on the appointment of a company's external auditors, that the audit committee be responsible for making a recommendation to the shareholders. Under English company law, a company's external auditors are appointed by its shareholders. In accordance with the provisions of the Combined Code, the Audit Committee is responsible for making recommendations to the Board, for the Board to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditors.

The SOX Rules also require that a company's external auditors report directly to the audit committee. Whilst, as a matter of English law, the Company's external auditors are answerable to the shareholders, on a day-to-day basis they report to the Company, through

the Audit Committee, which is responsible for approving their remuneration and terms of engagement and for recommending them to the Board.

Under the SOX Rules, the external auditors are required to report to the audit committee on critical accounting policies and alternative treatments under generally accepted accounting principles relating to material items that have been discussed with management and other material communications with management, prior to the filing of their audit report with the SEC. Although the Company's external auditors are not specifically required to report on such matters to the Audit Committee under the Combined Code, they are matters that would ordinarily form part of their reports to the Audit Committee.

The SOX Rules include prohibitions on a company's external auditors providing specified non-audit services. Certain other non-audit services may be provided if specifically approved by the audit committee, or if they are in accordance with written policies and procedures previously approved by it. If the Company were required to file an Annual Report on Form 20-F with the SEC, it would have to disclose the approval policies established by the Audit Committee, as well as information regarding the non-audit fees paid to the Company's external auditors. There are no comparable restrictions or disclosure requirements under the Combined Code, although the Audit Committee is responsible for monitoring the independence of the Company's external auditors and has established a policy to ensure that the provision of non-audit services by the external auditors does not impair their independence or objectivity. It remains confident that the independence and objectivity of the external auditors are not impaired by reason of such work. The non-audit fees paid to its external auditors are disclosed by the Company in its annual Report and Accounts.

Under the SOX Rules, the partner with overall responsibility for an audit client must be replaced at least every five years and may not be reappointed for a further five years. Other members of the audit team for a company must generally rotate at least every seven years, with a two year cooling-off period. There are similar rotation provisions under UK regulations for the UK lead partner of an audit firm and it is the Audit Committee's policy to require a staggered five year rotation for the lead partners of the external auditors globally. The Audit Committee will consider dispensations from this policy where recommended by the appropriate Regional Audit Committee as a result of local circumstances.

In addition to requiring the rotation of members of the audit team, the SOX Rules state that an audit firm will not be independent if, during the audit engagement period, any audit partner (other than certain specialty partners) working on a company's audit earns or receives compensation based on cross-selling non-audit services to that company or its affiliates. Similarly, external auditors will not be independent in certain circumstances involving employment by a company of former partners or employees of the audit firm. The Company is satisfied as to the independence and objectivity of the external auditors, taking into consideration relevant UK professional and regulatory requirements.

The SOX Rules require the audit committee to establish detailed "whistleblower" procedures to handle complaints concerning accounting, internal accounting controls or auditing matters and for the anonymous submission by employees of concerns about questionable accounting or auditing matters. The Company's whistleblowing policy and procedures enable employees to raise concerns over suspected wrongdoing at work, including improper accounting practices, in confidence and without reprisal, even where their concern is mistaken, provided that it is raised in good faith. Details of the Company's whistleblowing policy are set out in the Company's Standards of Business Conduct.

4. **Nomination and Compensation Committees**

Subject to certain exceptions, the AMEX Rules require that director nominations be selected, or recommended for the board's selection, and that the compensation of the officers of a company be determined, or recommended for the board's determination, either by a committee comprised of independent directors or by a majority of the independent directors on its board. The AMEX Rules also require a company to adopt a formal written charter or board resolution, as applicable, addressing the nominations process and related matters. The AMEX Rules do not permit the chief executive officer to be present during voting or deliberations with respect to his compensation.

The Board has established:

- (a) a Nominations Committee for the purpose of making recommendations to the Board on suitable candidates for appointment to the Board and Management Board and reviewing the succession plans for the Executive Directors and members of the Management Board; and
- (b) a Remuneration Committee for the purpose of determining the framework and policy on terms of engagement and remuneration of the Chairman, the Executive Directors and members of the Management Board.

The Nominations Committee is chaired by the Chairman and comprises all the Non-Executive Directors, a majority of whom are independent. The Remuneration Committee is chaired by the Senior Independent Director and its membership comprises all the remaining independent Non-Executive Directors. The Chairman and the Chief Executive do not attend meetings when their own remuneration is under review.

Both Committees satisfy the provisions of the Combined Code and their terms of reference are available on the Company's website.

5. **Code of Conduct**

Under the SOX Rules, a company must disclose whether it has a written code of conduct and ethics which is applicable to its principal executive officer, principal financial officer and principal accounting officer or controller (or persons performing similar functions) and which meets certain specified requirements, and it must make that code public. The Company's Standards of Business Conduct, which may be accessed via its website, are applicable to all the Company's directors, officers and employees and to the directors, officers and employees of all Group companies.

If the Company were subject to the SOX Rules, it would also be required to disclose any material waivers or amendments to its code of conduct in the Annual Report on Form 20-F. There were no material waivers or amendments to the Company's Standards of Business Conduct in 2006 that would have required such disclosure.

6. **Shareholder Approval of Equity Compensation Plans**

Subject to certain exceptions, the AMEX Rules require the approval of shareholders with respect to the establishment of (or material amendment to) any stock option or purchase plan or other equity compensation arrangement pursuant to which options or stock may be acquired by officers, directors, employees, or consultants.

The Company complies with the listing rules of the UK Listing Authority. Those rules require shareholder approval for the adoption of equity compensation plans, which are either long-

term incentive schemes in which the directors of a company can participate, or schemes which may involve the issue of new shares. Under the UK Listing Authority rules, such plans cannot be changed to the advantage of participants without shareholder approval, save that certain minor amendments, for example to benefit the administration of a plan or to take account of tax benefits, are permissible without such approval. The UK Listing Authority rules requiring shareholder approval for the establishment of, or any material amendment to, equity compensation plans may differ from those provided for under the AMEX Rules.

7. Management Accountability

The SOX Rules require an Annual Report on Form 20-F filed with the SEC to be accompanied by a statement from the company's principal executive officer and principal financial officer certifying that the Report does not contain any material misstatements or omissions and that the financial statements contained in it fairly present, in all material respects, the financial condition and results of the company's operations. The SOX Rules also require that specific certifications and disclosures be made in relation to the company's internal disclosure and financial controls. In addition, the principal executive officer and principal financial officer are required to certify that a periodic report containing financial statements filed with the SEC complies, in all material respects, with the applicable SEC requirements and fairly presents, in all material respects, the financial condition and results of operations of the issuer.

The Company is not required to provide equivalent certifications under the Combined Code and accordingly does not do so. However, the Board is responsible for the Company's annual Report and Accounts and authorises its signature. In accordance with English company law, the Directors confirm in the 2006 Report and Accounts that they have met their responsibilities in relation to the financial statements and the provision of relevant audit information to the external auditors. The Company's external auditors have reported that, in their opinion, the financial statements give a true and fair view of the Company and the Group at 31 December 2006 and of the profit and cash flows of the Group for the year then ended. The Corporate Governance Statement addresses the Company's system of internal control and sets out the Board's statement on internal control, prepared in accordance with the revised Turnbull Guidance adopted by the UK Listing Authority.

The SOX Rules provide that, under certain circumstances, a company's chief executive officer and chief financial officer can be required to reimburse the company for bonuses and their profits on the sale of the company's shares, where an accounting restatement is made necessary by non-compliance or misconduct. Those circumstances have not arisen within the Company.

8. Loan Prohibitions

Under the SOX Rules, a company is prohibited from extending or maintaining credit (or arranging for extensions of credit), or renewing an extension of credit, in the form of a personal loan, to or for any director or executive officer, other than certain consumer credit arrangements made in the ordinary course of business. Other types of loan are specifically exempted. The Company does not make personal loans, or extend or maintain credit or arrange extensions of credit, to its Directors.

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