



Our Modern Oral Products*

In recent years, a new category of Modern Oral products has emerged. These come in the form of nicotine pouches that are placed under the lip so that nicotine can be effectively absorbed.



Highlights

- Continued strong global volume growth (up 70.5%), with consumer numbers up 0.6m to 2.1m.
- ENA revenue up 44%, with volume up 46% driving volume share to 69.4%, up 380 bps.
- US volume up 272%, with volume share of Modern Oral at 11.7%, up 410 bps vs 2020 in a highly competitive market.

The Scientific Evidence*

Laboratory chemical studies for our Modern Oral products show they produce substantially lower levels of toxicants than cigarette smoke and even lower levels than snus – a traditional oral tobacco product which is already regarded as a reduced risk† alternative to smoking. Toxicology tests assessing the biological effects of our Modern Oral products on human cells also show they have little effect relative to snus and cigarettes.

In 2021, we published new peer-reviewed evidence, which suggests our Modern Oral tobacco-free nicotine pouches have a toxicant profile that is comparable to nicotine replacement therapy products (NRT). The pouches were also found to have a toxicant profile that is far lower than snus.

“Smokeless tobacco products are much cleaner and less hazardous than cigarettes. Their use could reduce harm to smokers if they switched entirely to these products.”

Professor Neal Benowitz
Professor of Medicine at the University of California, San Francisco



23

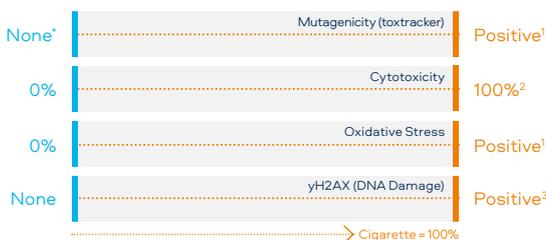
Number of markets where the Group's Modern Oral products are sold

Modern Oral Top 5 markets
U.S., Sweden, Norway, Denmark and Switzerland

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

† Our products as sold in the U.S., including Vuse, Velo, Grizzly, Kodiak, and Camel Snus, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.

Toxicology tests Cigarette vs Velo



Notes:

1. Toxtracker assay (rtkn and bsc12).
2. At equivalent nicotine doses (7.85µg/ml velo vs. 4.34µg/ml cigarette).
3. High content screening.

Strategic Management

Short-Term Deliverables to Fuel A Better Tomorrow™



Ensure a Step Change in New Categories Performance Continued

This study compared BAT’s nicotine pouch products to both snus and NRTs. Each was tested for 26 compounds, some of which are known harmful and potentially harmful constituents (HPHCs). For our products, 22 of the 26 compounds tested were below measurable limits. For NRTs, 20-22 compounds were below measurable limits, whereas snus was found to have 11 compounds below measurable limits.

On the basis of our evidence and informed by the wealth of independent evidence regarding snus, switching completely to Modern Oral products can be expected to reduce the risk of smoking-related disease when compared to continued smoking. That is why we are investing so much in refining and improving these innovative products. This is part of our commitment to providing adult consumers with a wide range of enjoyable and less risky[†] alternatives to cigarettes.

Our Products

Our Modern Oral products are white in colour and contain high-purity nicotine, water and other high-quality food-grade ingredients, including eucalyptus and pine tree fibres, flavouring and sweeteners.

Originating in Scandinavia, Velo is now a leading global brand of nicotine pouches. These typically appeal to a broader audience than traditional oral tobacco, and because of their affordability and lack of batteries, they can be particularly popular in low-to-middle income countries. For example, our subsidiary in Indonesia has delivered encouraging results from its expansion activities in Jakarta. Following a promising performance in June 2020, the test has been expanded to 5,000 consumers, which is being closely monitored to gain consumer insights.

We are also delivering a step-change in Modern Oral manufacturing. Truly living our ethos, our Modern Oral factory in Pécs, Hungary, put together a bold plan to implement food industry standards for Modern Oral manufacturing. This has enabled us to ensure the availability of products that comply with regulations in different countries.

With a cross-functional team across quality, production, engineering and EHS teams delivering technical changes and process improvements, Pécs became the first site in BAT’s history to obtain the ISO 22000 certification for food safety standard.

Performance Summary

Having consolidated our leadership position in Modern Oral outside the U.S. and expanded the U.S. portfolio with the Dryft acquisition in 2020, 2021 has been a year of further growth in volume and value.

Our growth accelerated globally in 2021, with volume up 71% to 3.3 billion pouches (2020: up 62% to 1.9 billion pouches).

Revenue increased 39% to £274 million (2020: up 57% to £198 million). Excluding the impact of foreign exchange, this was an increase of 41% in 2021 and 57% in 2020, on a constant rates basis.

Volume share of the Modern Oral category in our T5 markets was 34.7%, in line with 2020.

This was largely driven by the U.S., where our volume share of Modern Oral increased by 410 bps as volume grew 272% to 602 million pouches (2020: up 45% to 162 million pouches). This growth was due to the acquisition of the nicotine pouch products of Dryft Sciences, LLC (Dryft) in October 2020. These products are now present in over 110,000 stores nationally, driving volume share expansion to 11.7%, up 410 bps on 2020 in a highly competitive market. Due to discounting to drive consumer trial, which is recognised as a deduction to revenue under IFRS, revenue declined 82% to £2 million, having grown 14% to £10 million in 2020.

While we are excited about the long-term potential of the Modern Oral market in the U.S., it currently represents less than 2% of the nicotine industry by revenue (in the U.S.) and 51% and 38% of global Modern Oral volume and value share, respectively.

The majority of Velo consumers (in the U.S.) adopted the brand as their first in Modern Oral, sourced evenly from Combustible, snus, Traditional Oral and Vapour consumers. Our insights suggest that a high percentage of Modern Oral users are already poly-users of other categories.

In ENA, we are volume share leaders of the Modern Oral category in 15 of the 17 markets where we are active. Revenue increased by 44% (2020: up 59%) or 46% (2020: up 59%) at constant rates of exchange. We continue to drive innovation in the category, with the success of our Sachet, Black range and Velo Mini launches, as well as new flavours generated alongside consumers in our LAB co-creation hubs in Sweden.

Furthermore:

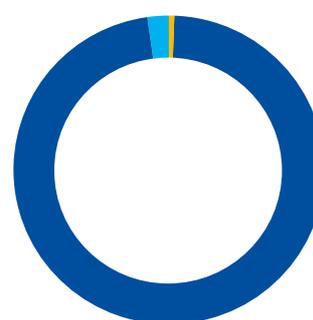
- In Sweden, where Modern Oral has grown to represent 13.5% of the total oral category, our volume share of the Modern Oral category reached 59.6%, an increase of 580 bps on 2020**;
- In Norway, where Modern Oral now represents 28.7% of the total oral category, our volume share of the Modern Oral category grew to 63.9%, up 180 bps on 2020, having declined 270 bps in 2020 from 64.8% in 2019; and
- In Denmark, where Modern Oral now represents 90.5% of the total oral category, our volume share of Modern Oral category fell 130 bps to 92.6%.

Our pilot launches in emerging markets (including Pakistan and Indonesia) continue to deliver valuable insights, as we roll-out in key urban markets. We believe that Modern Oral is an exciting longer-term opportunity to commercialise reduced risk products*[†] by offering affordable New Category alternatives to adult nicotine consumers.

In Kenya, we continue to engage with the relevant authorities on the regulatory and fiscal framework to support a commercially sustainable re-entry into the Modern Oral category.

In Germany, sales of Modern Oral have been suspended pending engagement with the authorities regarding the classification of tobacco-free nicotine pouches.

Proportion of Modern Oral revenue by region in 2021 (£m)



	2021 £m	2020 £m
U.S.	2	10
AmSSA	-	1
ENA	266	185
APME	6	2
Total	274	198

* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

** Sweden volume share has been re-based to include Nicotine free pouches in all periods. Accordingly, our 2020 volume share of Modern Oral was re-based to 53.8%.

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