

Our Combustible Products

We are focused on driving value from our strategic brands of Dunhill, Kent, Lucky Strike, Pall Mall, Rothmans, Newport (U.S.), Natural American Spirit (U.S.) and Camel (U.S.), which now account for 66% of our combustible volume.

Our combustibles business is founded on understanding and meeting the preferences of adult smokers in all parts of the world.

Highlights

Group value share was down 40 bps, driven by the U.S., down 60 bps, and APMEA, down 60 bps, partially offset by AME, which was flat versus 2022.

Volume share flat versus 2022.

Strong price/mix +7.5%.

Value and Volume Share

Group cigarette value share was 40 bps lower in 2023 (2022: flat), mainly driven by the U.S. (down 60 bps). This combined with lower cigarette value share in Japan, Brazil, South Korea, New Zealand, Australia and Canada, was partially offset by higher value share in Mexico, Italy, Bangladesh, Germany, Spain and France.

Group cigarette volume share was flat in 2023 (2022: down 20 bps). In 2023, the Group grew volume share in Bangladesh, Ukraine, Mexico, Italy, Spain, Pakistan, France, Colombia and Germany. However, this was offset by Japan, Brazil, South Korea, the U.S., Switzerland, Australia, the Czech Republic, Canada and Romania. In 2022, this was a decrease of 20 bps driven by lower volume share in Brazil, Bangladesh, the U.S., South Korea, Russia, Poland, Romania, Canada and Germany, more than offsetting growth in Japan, Pakistan, Colombia, Spain and Saudi Arabia.

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Number of cigarette factories in 36 countries

Volume Performance

In 2023, Group cigarette volume was down 8.2%, at 555 billion sticks (2022: down 5.1% to 605 billion), with the total cigarette market returning to a more normalised decline of 11%, having been largely stable in 2022.

Volume declined in the U.S. in both 2023 and 2022 (discussed below). Both years were also impacted by disposals partway through the year (or in the comparison year) as the Group disposed of its businesses in Russia and Belarus in 2023 and Iran partway through 2021.

In 2023, volume was also down in Pakistan, driven by significant excise increases. This was partly offset by volume growth in Bangladesh, Brazil and Türkiye.

In 2022, volume was down in Türkiye, Germany, Nigeria and Chile, largely due to an increase in illicit trade and a return to more normalised market performance post COVID-19. In addition, volume grew in both years in Brazil (due to lower illicit trade) and Bangladesh (due to the strength of the local portfolio). Also in 2022, as travel restrictions started to relax, our Global Travel Retail business began to recover, having negatively impacted Group cigarette and HP volume by an estimated 1.0% compared to pre-pandemic levels.

In the U.S., industry volume declined 7.5%, having declined 10% in 2022, largely driven by macro-economic pressures impacting consumer behaviour. As a result of our premium-skewed portfolio, combustibles volume was down 11.4% (2022: down 15.4% to 59 billion), with downtrading driving a greater proportional effect on the Group. In addition, cigarette volume was negatively impacted by the flavour ban in California and the increase of solus-usage of alternative nicotine products, driven by the growth of illicit single-use Vapour products. The movement in 2022 was partly impacted by trade inventory movements (mainly linked to the timing of price increases and uncertainty about a potential excise increase) in the final quarter of 2021, which benefited 2021 by an estimated £200 million and was partially unwound in 2022.

Change in cigarette value share in key markets (bps)

-40bps

2023	-40	-40
2022		flat

Definition: Annual change in cigarette value share – being the value of cigarettes bought by consumers of the Group's brands in key markets as a proportion of the total value of cigarettes bought by consumers in those markets (see page 333).

Change in cigarette volume share in key markets (bps)

flat

2023		flat
2022	-20	-20

Definition: Annual change in cigarette volume share – being the number of cigarettes bought by consumers of the Group's brands in key markets as a proportion of the total cigarettes bought by consumers in those markets (see page 333).



Quality Growth

Our Combustible Products Continued

Regulation

On 29 April 2021, the FDA announced it was in the process of advancing a tobacco product standard banning menthol as a characterising flavour in cigarettes.

On 1 August 2022, our U.S. business submitted a detailed comment opposing the proposed rule.

On 15 June 2023, the Biden Administration released its Spring Unified Agenda, which indicated a final rule would be published in August 2023.

On 13 October 2023, the FDA transferred the final proposed rule to the Office of Management and Budget (OMB) for review.

On 13 November 2023, our U.S. business met with the OMB to address the rule's significant flaws and to recommend that the OMB return the rule to the FDA for reconsideration given, among other things, the expected growth of the illicit market that would result from the proposed menthol ban.

On 6 December 2023, the Biden Administration released the Fall 2023 Unified Agenda, which now indicates that the Administration expects to issue the final rule in March 2024; however, the Administration is not bound by this timeline. The U.S. business will evaluate any final rule, if, and when, it is issued.

We have been clear that a ban on menthol cigarettes would harm, not benefit, public health.

Published science¹ indicates that:

- menthol cigarettes do not present any greater risk of smoking-related disease compared to non-menthol cigarettes; and
- the weight of scientific evidence does not indicate that menthol cigarettes adversely affect initiation, dependence, or cessation.

Additionally, evidence from other markets where similar bans have been imposed demonstrates no impact on overall cigarette consumption because smokers switch to non-menthol cigarettes, turn to the illicit market, and resort to product tampering.

A ban on menthol is contrary to the FDA's stated goal of reducing the health effects of tobacco use. Our U.S. business will continue to participate in consultation and will likely challenge this unsupported and counterproductive rule in court if, and when, it is released.

In December 2022, the sale of all tobacco products with characterising flavours (including menthol) other than tobacco was banned in the State of California. This negatively impacted the Group's volume in the U.S. in 2023 and the Group will continue to monitor the impact in the coming periods.

Strategic Brand Performance

In 2023, strategic cigarette brands' value share was down 30 bps (2022: up 10 bps):

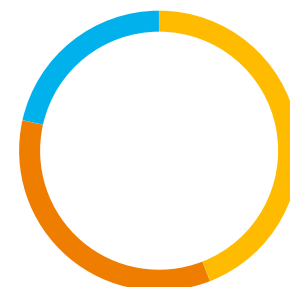
- Dunhill's overall value share was flat (2022: flat) as growth in Brazil, Saudi Arabia and South Africa was offset by declines in South Korea, Malaysia, Pakistan and Australia. Volume was 0.9% higher (2022: up 7.3%), largely driven by Brazil and Indonesia;
- Kent's value share was down 10 bps (2022: 10 bps down) as growth in Poland and Chile was offset by lower value share in Brazil, Japan, Romania, South Korea, Netherlands, Malaysia and South Africa. Volume was down 9.4% (2022: down 6.1%) as growth in Türkiye and Poland was more than offset by lower volume in Brazil and Japan. 2023 was also impacted by the sale of the Russian and Belarusian businesses (partway through the year) while 2022 was impacted by the sale of the Iranian business partway through 2021;
- Lucky Strike's value share grew 40 bps (2022: up 60 bps), as growth in the U.S., Chile, Bangladesh, Italy, Spain, France and Colombia more than offset lower value share in Japan, Germany, Mexico and Poland. Volume grew 16.7% (2022: up 14.5%) driven by Russia, the U.S., and Brazil, partially offset by Japan;
- Rothmans' value share was flat (2022: flat) as growth in Romania, Italy, the Czech Republic, Brazil, New Zealand, Malaysia and Colombia was offset by lower value share in Poland, Pakistan, Australia, the UK and Saudi Arabia. Volume was 14.6% lower (2022: 5.1% down) as growth in Brazil, and Romania was more than offset by lower volume in Russia, Yemen and Pakistan; and
- Pall Mall's value share was 30 bps lower (2022: 40 bps down) as growth in Pakistan, Canada, Mexico and the Netherlands was more than offset by lower value share in the U.S., Chile, Romania, Australia and Poland. Volume was down 15.9% (2022: down 9.5%) largely driven by Pakistan and the U.S..

The Group's U.S. domestic strategic combustible portfolio was 60 bps down:

- Newport value share decreased 50 bps (2022: up 10 bps), while volume declined 14.7% (2022: down 17.0%);
- Natural American Spirit performed well with value share up 30 bps (2022: up 10 bps). Volume was 3.5% down (2022: down 9.2%); and
- Camel's value share declined 50 bps in the U.S. (2022: down 30 bps) with volume 14.0% down (2022: 15.7% down), driven by competitive pricing pressures.

Volume of other tobacco products (OTP) declined 11.0% to 14.8 billion sticks equivalent (2022: 10.3% decline), being 3% of the Group's combustible portfolio (2022: 3%).

Proportion of combustibles revenue by region in 2023 (£m)



	2023 £m	2022 £m
U.S.	9,744	10,470
AME	7,614	7,588
APMEA	4,750	4,972
Total	22,108	23,030

Revenue

In 2023, revenue from combustibles was down 4.0% at £22,108 million (2022: £23,030 million, up 4.5%). Pricing in both years was strong with price/mix in 2023 at 7.5% and 4.6% in 2022. However, this was offset by the decrease in volume in both years as described earlier.

Revenue is affected by the relative movement of sterling against the Group's reporting currencies. In 2023, this was a translational foreign exchange headwind of 3.2%, compared to a tailwind of 5.1% in 2022.

Also in 2023, revenue was impacted by a combination of lower comparative performance from Russia and the sale of the Group's businesses in Russia and Belarus partway through the year, which in aggregate acted as a negative drag on performance by £380 million.

After adjusting for the currency headwinds, revenue from combustibles at constant rates of exchange was down 0.8% to £22,846 million, having declined by 0.6% in 2022.

Amortisation of the U.S. Combustibles Brands

Following a review of the Group's performance expectations in the U.S. reflecting continuing macro-economic headwinds, with effect from 1 January 2024, the Group's indefinite-lived combustible brands will be amortised on a straight-line basis over periods not exceeding 30 years.

In 2024, and the immediate years following this change in accounting estimate, the expected impact is an increase in annual amortisation expense of £1.4 billion.

Note:

1. Scientific evidence available at www.regulations.gov/comment/FDA-2021-N-1349-17511