

Quality Growth

Our Heated Products (HPs)

Heated Products (HPs)* use heat to generate a nicotine-containing aerosol, which the user inhales. This category includes Tobacco Heated Products (THP) and Herbal Products for Heating (HPH).

Within HP, because the tobacco or herbal substrate is heated instead of burned, the resulting aerosol comprises mainly water, glycerol, nicotine and flavours – different to cigarette smoke.

31

Number of markets where the Group's Heated Products are sold

HP Top 12 markets**

Japan, South Korea, Italy, Greece, Hungary, Kazakhstan, Ukraine, Poland, Switzerland, Romania, Malaysia and the Czech Republic.

**Highlights**

glo HP category volume share down 110 bps in Top 12 markets vs 2022 to reach 18.2%.

glo consumer acquisition up 0.8 million reaching 8.0 million.

glo consumable volume down 1.3%, with the industry volume up 13%, with our performance impacted by the sale of our businesses in Russia and Belarus.

glo revenue declined by 6%.

Overview

Heated Products offer the most familiar route for smokers to adopt a reduced-risk*, smokeless product.

To effectively compete in the Heated Product category, more work is required to build glo as a strong and consistent global brand and we must transform our product portfolio through our robust innovation pipeline.



In terms of risk reduction, [HPs] avoid the intake of all those compounds that are released with the combustion of classic cigarettes.

Dr Piero Clavario

Director of Anti-Smoking Centre and Cardiology Department at the Azienda Sanitaria Locale, Genoa, 2021

The Scientific Evidence*

In a cigarette, the tobacco is burned by combustion at temperatures over 900°C, releasing a highly complex mixture of gases, particles and compounds and leaving behind a grey ash. In contrast, HPs heat tobacco or other herbal ingredients, like rooibos, to much lower temperatures (below 400°C).

Due to the heating, as opposed to burning, HPs are considered reduced-risk* compared to continued smoking for those who switch completely.

In 2018, Public Health England***, while highlighting the need for more research, found that “compared with cigarettes, heated tobacco products are likely to expose users and bystanders to lower levels of particulate matter, and potentially harmful compounds.”¹

More long-term studies are needed on HPs, which is why we conducted our year-long clinical study to evaluate the reduced-risk potential of glo. The 12-month data was published in a peer-reviewed journal in August 2022².

This study showed that smokers who switched from cigarettes to the exclusive use of glo significantly reduced their exposure to certain toxicants and indicators of potential harm related to several smoking-related diseases, in some measures to a level found in participants who had stopped smoking entirely.

Notes:

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

** Key HP markets are defined as the Top 12 markets (excl Russia) by industry volume. They were adjusted in 2023, with more established HP markets Kazakhstan, Romania, Switzerland and Malaysia introduced and Russia removed. Accordingly, glo's category volume share for 2022 was rebased on the new definition from 19.4% to 19.2%. Top 12 markets by volume are Japan, South Korea, Italy, Greece, Hungary, Kazakhstan, Ukraine, Poland, Switzerland, Romania, Malaysia and the Czech Republic. These markets account for c. 85% of global industry HP volume in 2023.

*** Public Health England (PHE) was replaced in Oct 2021 by the UK Health Security Agency and Office for Health Improvement and Disparities.

1. McNeill A, Brose LS, Calder R, Bauld L, Robson D. Evidence review of e-cigarettes and heated tobacco products 2018. A report commissioned by Public Health England. London: Public Health England, 2018.

2. Gale, N., McEwan, M., Hardie, G., Proctor, C.J. and Murphy, J. (2022). Changes in biomarkers of exposure and biomarkers of potential harm after 360 days in smokers who either continue to smoke, switch to a tobacco heating product or quit smoking. Internal and Emergency Medicine. doi:https://doi.org/10.1007/s11739-022-03062-1.

Designed with Purpose

Hyper pro is our newest and most premium version of Hyper, introduced to expand glo™ to address the needs of the HP consumers.

Hyper pro meets their needs for enhanced sensory satisfaction and familiar ritual, with a premium and exclusive device that projects their identity and status.

Featuring our new HeatBoost™ technology delivers superior taste satisfaction, a step up on immediacy, more intense boost taste mode and longer session, compared to earlier Hyper devices. Paired with our new, upgraded blended tobacco stick range and our veo tobacco-free herbal stick novel flavour range with capsule, it delivers an enhanced experience compared to other Hyper products.

Hyper pro is a smart and intelligent device equipped with a progressive EasyView™ display for interactive and intuitive control of the experience through a simple screen interface displays the selected taste mode, session progress and battery power. The device has better palm fit and convenience in use with a TasteSelect dial enabling one move to open the shutter and select the taste mode. This is also combined with the convenience of a faster charge than other Hyper products.

The Hyper pro launched in December 2023 in Italy and Poland, at premium pricing in a range of five stylish colours.

We continue to expand our geographic footprint with glo now available in 31 markets. veo is our latest innovation in offering a reduced-risk alternative to adult smokers in 11 markets, and we were the first major tobacco company to launch in the tobacco-free segment.

Performance Summary

Impacted by the sale of the Group's businesses in Russia and Belarus in 2023 (which negatively impacted performance by 2.5 billion sticks, partly due to the timing of the sale partway through the year and a lower underlying performance as we reduced investment and focus on Russia), total consumable volume declined 1.3% to 23.7 billion sticks in 2023 having grown 26% (to 24.0 billion sticks) in 2022.

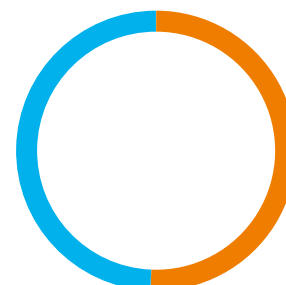
In 2023, glo HP category volume share in the Top 12 markets, declined 110 bps to 18.2%. Growth in Poland and the Czech Republic was more than offset by the highly competitive markets of Japan, South Korea and Italy.

Revenue declined 6.0% to £996 million (2022: up 24.3% to £1,060 million), largely due to the sale of the Group's businesses in Russia and Belarus partway through the year and a lower underlying performance as we reduced investment and focus on Russia, which acted as a drag on performance by £75 million. Excluding the impact of the relative movements in sterling, at constant rates of exchange revenue declined 2.5% in 2023, compared to an increase of 26.7% in 2022.

In AME, which has seen strong industry volume growth of 17% in 2023 (2022: 31%), our consumable volume declined 7.5% to 11.1 billion sticks, having grown 43% in 2022. The decrease in 2023 was largely due to the sale of the Group's businesses in Russia and Belarus which, along with lower underlying performance in Russia, negatively affected volume by 2.5 billion sticks, more than offsetting higher volume in Poland, Italy, Romania and the Czech Republic.

Accordingly, in 2023, revenue increased by only 2.3%, or 3.0% at constant rates of exchange, having grown 69% (or 65% at constant rates of exchange) in 2022. AME now represents 47% of our global HP volume. The timing of the sale of Russia and Belarus was a £75 million negative drag on the revenue performance in 2023, offsetting a good performance in the remainder of the region supported by the portfolio laddering strategy and volume share gains in key markets.

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



	2023 £m	2022 £m
U.S.	0	0
AME	505	494
APMEA	491	566
Total	996	1,060

In APMEA, where the most mature HP markets are, our consumable volume grew 4.9%, having grown 12.3% in 2022. Revenue was down 13.2% (2022: up 1.1%) being a decline of 7.3% (2022: 7.0% higher) at constant exchange. 2023 was impacted by the price repositioning in the highly competitive Japanese market, with both 2023 and 2022 negatively affected by the final steps in the five-year excise harmonisation programme. Pricing was therefore a negative drag on the regional HP performance by 12.2% in 2023, having also negatively impacted 2022 by 5.3%. glo's volume share in Japan started to stabilise in the second half of 2023, driven by the activation of our commercial plans and positive uptake post successful launch of glo Hyper Air in the second half of the year. 2022 growth was driven by higher volume and consumable pricing.

In Japan, glo's volume share of total HP and combustibles was 7.4%, flat on 2022 (2022: 7.4%), as consumers continue to switch to reduced-risk alternatives to cigarettes, with our HP category volume share at 18.3%, down 170 bps from 20.1% in 2022.

glo Hyper Air (our lightest device to date), is now in 23 markets, delivering positive results. We continue to expand our geographic footprint with glo now available in 31 markets.

Note:

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