

## Quality Growth

## Our Vapour Products

**Vapour products<sup>\*†</sup> are battery-powered devices that heat e-liquids to produce an inhalable aerosol (vapour).**

Our leading, global Vapour brand, Vuse, plays a major role in providing smokers with a reduced-risk<sup>\*†</sup> alternative to cigarettes.

63

Number of markets where the Group's Vapour products are sold

**Vapour Top 5 markets<sup>\*\*\*</sup>**  
the U.S., the UK, France, Germany and Canada.

### Highlights

Vuse value share up 30 bps vs 2022 to reach 36.1% share (in tracked channels) in our Top 5 markets.

Vuse extended its value share leadership position in the U.S., increasing 470 bps vs 2022 to 45.6%.

Consumer acquisition up 1.5 million, reaching 11.5 million.

Vapour volume up 7.0% in strong price environment (+19.9%), delivering revenue 27% higher at constant rates of exchange.

Vuse Go (the Group's single-use vapour offer) launched in 59 markets, including the UK, France, Spain, Canada, Greece, Germany and Ireland.

### Overview

Vapour is the largest smokeless product category in terms of number of consumers, has the largest global footprint and is an attractive proposition to convert smokers to reduced risk<sup>†</sup> smokeless products.

Low barriers to entry and an absence of consistent regulatory frameworks leads to a highly fragmented and competitive landscape.

Regulatory risks, illicit trade, the pace of innovation and profitability are key challenges for the Vapour category. However, we believe that the category can reach more than 20 million consumers across 100+ markets globally, profitably.

### The Scientific Evidence

Evidence continues to emerge from the public health community and academia about the role of vapour products as a reduced-risk<sup>†</sup> alternative to smoking.

In the UK, for example, Public Health England<sup>\*\*</sup> published a series of expert reviews of the existing evidence, drawing on peer-reviewed literature, surveys and other reports, concluding: "the current best estimate is that e-cigarettes are around 95% less harmful than smoking."<sup>1</sup>

Moreover, the UK National Health Service states that "Evidence shows that nicotine vapes are actually more effective than nicotine replacement therapies, like patches or gum."<sup>2</sup>

In 2021, we published a comprehensive review of the scientific evidence for vaping products, their potential health effects, and their role in tobacco harm reduction. This is a summary of more than 300 peer-reviewed scientific papers and other evidence published by around 50 institutions over the past decade.<sup>3</sup>

According to adult population modelling studies cited in the review, a significant reduction in premature deaths could be achieved if current smokers switched exclusively to vaping rather than continuing to smoke cigarettes.

In 2023, results from our innovative cross-sectional clinical study<sup>4</sup> showed that exclusive Vuse users had significantly lower exposure to tobacco toxicants, and favourable results for indicators linked to smoking related diseases, compared with smokers.

Also in 2023, we published a laboratory study<sup>4</sup> which showed flavoured e-liquid toxicity was >95% reduced when compared to cigarette smoke and concluded that flavoured e-liquids do not increase the risk profile of well stewarded e-cigarettes.

### Notes:

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

† Our Vapour product Vuse (including Alto, Solo, Ciro and Vibe), and certain products, including Velo, Grizzly, Kodiak, and Camel Snus, which are sold in the U.S., are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.

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

\*\*\* Key Vapour markets are defined as the Top 5 markets by industry revenue, being the U.S., the UK, France, Germany and Canada and accounting for c.75% (2022: 88%) of total industry Vapour revenue (rechargeables and single-use products).

1. GOV.UK. (n.d.). E-cigarettes around 95% less harmful than tobacco estimates landmark review. Available at: <https://www.gov.uk/government/news/e-cigarettes-around-95-less-harmful-than-tobacco-estimates-landmark-review>

2. NHS (2023). Vaping myths and the facts - Better Health. [online] nhs.uk. Available at: <https://www.nhs.uk/better-health/quit-smoking/vaping-to-quit-smoking/vaping-myths-and-the-facts/>.

3. Camacho, O.M., Ebajemito, J.K., Coburn, S., Prasad, K., Costigan, S. and Murphy, J.J. (2021). Evidence From the Scientific Assessment of Electronic Cigarettes and Their Role in Tobacco Harm Reduction. Contributions to Tobacco & Nicotine Research, 30(2), pp.63–108. doi:<https://doi.org/10.2478/cttr-2021-0007>.

4. Haswell, L.E., Gale, N., Brown, E. et al. Biomarkers of exposure and potential harm in exclusive users of electronic cigarettes and current, former, and never smokers. Intern Emerg Med 18, 1359–1371 (2023). <https://doi.org/10.1007/s11739-023-03294-9>.

5. Bishop, E., East, N., F. Miazzi, Fiebelkorn, S., Breheny, D., Gaca, M. and Thorne, D. (2023). A contextualised e-cigarette testing strategy shows flavourings do not impact lung toxicity in vitro. 380, pp.1–11. doi:<https://doi.org/10.1016/j.toxlet.2023.03.006>.



## Regulation and PMTA

The future of tobacco harm reduction has always depended on robust science and ensuring that this science is accessible to audiences outside the scientific community is critical. This need is growing stronger than ever and consumers deserve to understand the relative risk profiles of these products.

In addition, perceptions of nicotine continue to evolve; however, many consumers—and health care professionals—do not adequately understand the risks associated with nicotine generally.

We strongly support a well-functioning regulatory system within which regulatory oversight leads to accelerated reductions in underage tobacco use and in tobacco-related harm. We are invested in that system and are fully committed to those goals.

The tobacco category is undergoing transformational change. Smokeless technologies like Vapour, Modern Oral and Heated Products offer enormous potential for moving more adult smokers to potentially less harmful alternatives. And this change is underscored by the U.S. Food and Drug Administration's Premarket Tobacco Product Application (PMTA) process.

PMTAs include, among other things, robust science packages composed of analytical, toxicological, pre-clinical, clinical, and behavioural data to demonstrate that the marketing of a tobacco product is "appropriate for the protection of the public health" and underpinned by science.

Vuse Solo (Original flavour) and Vibe/Ciro (tobacco flavours) have previously received marketing authorisations from the FDA confirming that the marketing of these products is appropriate for the protection of public health.

These applications were the culmination of years of scientific study and research. The Vuse Alto PMTA, which was submitted nearly a year after Vuse Solo, shares the same foundational science. We are confident in the quality of our applications.



**Vaping is not harmless. But there's overwhelming scientific agreement it's far less harmful than smoking. And that's what we need to compare it with.**

### Dr Colin Mendelsohn

Associate Professor, University of New South Wales, Chair, Australian Tobacco Harm Reduction Association, 2022

We are disappointed by the FDA's Marketing Denial Orders (MDOs) for Vuse Alto's Menthol\* and Mixed Berry products. We are challenging these denials in court and have obtained a permanent stay of enforcement for Vuse Alto Menthol, allowing it to remain on the market.

We believe that public health officials, legislators, and regulators—especially the FDA—should be concerned about the continued influx of illegal single-use vapour products into the U.S. market.

It is unacceptable that these products, marketed in youth-appealing flavours such as Bubble Gum and Cotton Candy, continue to be sold. We call on the FDA, in conjunction with state and local authorities, to strongly enforce against these products.

We continue to look for opportunities to innovate across our Vuse portfolio to meet the preferences of our adult consumers, and we continue to approach the growing single-use product category in a responsible way.

## Performance Summary

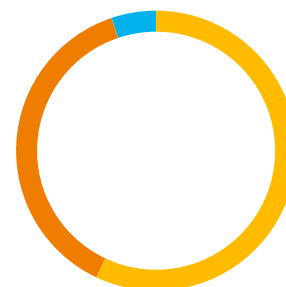
Vapour continued its strong momentum, driven by Vuse. Total volume of consumables in 2023 was up 7.0% to 654 million units, having grown 14.3% to 612 million units in 2022.

Combined with consumable pricing (+19.9% in 2023, having been +29.5% in 2022), this drove revenue up 26% to £1,812 million, or 27% at constant rates of exchange, with 2022 up 55% to £1,436 million (or an increase of 43.8% at 2021 rates of exchange).<sup>®</sup> In 2023, four of the five key Vapour markets delivered a positive new category contribution.<sup>®</sup>

Vuse maintained global Vapour value share leadership with a full year value share of 36.1% (up 30 bps vs 2022) led by Vuse Alto. Single-use products continue to accelerate category growth with their convenient format, driving consumer trial and conversion. Vuse Go is now in 59 countries, with positive regulatory developments enabling our entrance into a number of emerging markets (Colombia, Paraguay, Peru).

We consolidated our position in all Top 5 markets, driven by industry-leading consumer acquisition up 1.5 million to 11.5 million consumers.

## Proportion of Vapour revenue by region in 2023 (£m)



|              | 2023<br>£m   | 2022<br>£m   |
|--------------|--------------|--------------|
| U.S.         | 1,033        | 913          |
| AME          | 686          | 465          |
| APMEA        | 93           | 58           |
| <b>Total</b> | <b>1,812</b> | <b>1,436</b> |

We continue to have strong value share positions in the rechargeable sub-category. Specifically, on a full-year basis in 2023:

- In the U.S., the world's largest Vapour market, Vuse extended leadership in value share (of total Vapour in tracked channels) by 470 bps to 45.6%, maintaining the momentum of 2022 which was, itself, up from 32.5% in 2021. In 2023, revenue was up 13.1%, or 13.8% on a constant currency basis, driven by price increases in both consumables and devices during the year, and by leveraging our Revenue Growth Management tool as a key enabler of value creation. Pricing contributed to growth by 20.4% in 2023 and 36.4% in 2022, more than offsetting lower consumables volume (down 6.6% in 2023), driven by the growth of illicit synthetic nicotine single-use products. This followed a period of growth, as 2022 was up 10.0% to 320 million units.
- In Canada,\*\* volume declined 23% yet Vuse maintained its leadership position with total value share at 92.5% (up 210 bps) in 2023, having grown 890 bps in 2022.
- In the UK, total Vapour value share of the category was 10.3% (2022: 14.7%);
- In France, Vapour value share was 38.8% in 2023, remaining flat (vs 2022);
- In Germany\*\*, our value share of total Vapour was 25.9%, up 500 bps (2022: 20.9%).

### Notes:

\* Menthol variants accounted for approximately 65% of total Vuse consumables in 2023.

\*\* Following rebasing of third party databases, the 2022 value share for the Group was revised in Germany (from 21.4% to 21.1%) and in Canada (from 89.5% to 90.4%).