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 67% of our combustible volume.

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

Change in cigarette value share in Top markets* (bps)

-20 bps

2024	-20	-20
2023	-40	-40

Definition: Annual change in cigarette value share – being the value of cigarettes bought by consumers of the Group's brands in Top markets* as a proportion of the total value of cigarettes bought by consumers in those markets (see page 391).

Change in cigarette volume share in Top markets* (bps)

20 bps

2024	40	20
2023		flat

Definition: Annual change in cigarette volume share – being the number of cigarettes bought by consumers of the Group's brands in Top markets* as a proportion of the total cigarettes bought by consumers in those markets (see page 391).

Highlights

Group value share was down 20 bps, as APMEA (flat) and AME (flat) were more than offset by the U.S., down 30 bps.

Volume share 20 bps higher than 2023.

Strong price/mix +5.3%.

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Number of **cigarette factories** in 35 countries

Value and Volume Share

Group cigarette value share was 20 bps lower in 2024 (2023: down 40 bps), mainly driven by the U.S. (down 30 bps). This, combined with lower cigarette value share in Germany, Romania and Bangladesh, was partially offset by higher value share in Brazil, Mexico and Pakistan.

Group cigarette volume share was up 20 bps in 2024 (2023: flat vs 2022). In 2024, the Group grew volume share in Brazil, Bangladesh, Pakistan and Mexico. However, this was offset by Germany, Romania and Japan. 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.

Volume Performance

In 2024, Group cigarette volume was down 8.9%, at 505 billion sticks (2023: down 8.2% to 555 billion), with the total cigarette market continuing to decline at 2%.

Both years were impacted by the disposal of the Group's businesses in Russia and Belarus partway through 2023. Volume declined in the U.S. in both 2024 and 2023 (discussed below), with 2024 also negatively impacted by Sudan (as the ongoing conflict affected the supply chain).

In other markets in 2024, volume growth in Türkiye, Brazil, Indonesia, Pakistan, Venezuela and Mexico was more than offset by lower volume in exit markets, notably in Africa and Bangladesh.

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

In the U.S., industry volume declined 8.4%, having declined 7.5% in 2023 on a sales to wholesaler basis. Our combustibles revenue in the U.S. declined 6.7% (or 4.1% at constant rates of exchange), driven by 10.1% lower volume (2023: down 11.4% to 52 billion).

U.S. premium volume share was up 50 bps, driven by Newport soft-pack and Natural American Spirit.

The U.S. combustibles market continues to be negatively affected by macro-economic pressures impacting consumer behaviour, with a growth in the deep-discounted category (in which the Group is not present) and the increase of solus-usage of alternative nicotine products, driven by the growth of illicit single-use Vapour products.

Cigarette volume in the U.S was also negatively impacted by the flavour ban in California in 2023 and the increase of solus-usage of alternative nicotine products, driven by the growth of illicit single-use Vapour products.

Note:

* Top cigarette markets are defined as the Top cigarette markets by industry revenue, being the U.S., Japan, Bangladesh, Brazil, Germany, Pakistan, Mexico and Romania, accounting for c.60% of global industry cigarettes revenue in 2024.

Quality Growth

Our Combustible Products
Continued

Regulation

On 15 January 2025, in the final days of the outgoing Biden administration, the FDA issued a proposed product standard whereby the agency would limit nicotine levels in cigarettes following a two-year effective date from publication of any final rule. The proposed rule is currently subject to public comment, but may be de-prioritised by the Trump administration as it considers all proposed regulations advanced by the Biden administration. Thus, it is not known whether or when this proposed rule will be finalised, and, if adopted, whether the final rule will be the same as or similar to the proposed rule.

Under the Biden administration, the FDA announced its intention to issue a final rule to ban menthol as a characterising flavour in cigarettes. In January 2025, the Trump administration has withdrawn the rule from the Office of Management and Budget and it is currently held pending the new Trump administration's reconsideration of regulations advanced by the Biden administration.

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

Published science[1] 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.

We believe that 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 public discourse 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 has negatively impacted the Group's volumes in both 2023 and 2024 in the U.S. and the Group will continue to monitor the impact in the coming periods.

Strategic Brand Performance

In 2024, strategic cigarette brands' value share was flat (2023: down 30 bps):

- Dunhill's overall value share was up 10 bps (2023: flat) as growth in Brazil and Pakistan was partly offset by reductions in Romania. Volume was 0.9% lower (2023: up 0.9%), largely driven by South Korea and our exit from Mali;
- Kent's value share was up 10 bps (2023: 10 bps down) as growth in Brazil and Romania was partly offset by lower value share in Japan. Volume was down 1.2% (2023: down 9.4%) due to the negative impact of the sale of the Group's businesses in Russia and Belarus partway through 2023. Kent increased volume in Türkiye, Poland and Brazil, which was partly offset by lower volume in Japan;
- Lucky Strike's value share grew 70 bps (2023: up 40 bps), as growth in the U.S., Bangladesh, Brazil and Japan more than offset lower value share in Germany. Volume declined 4.8% (2023: up 16.7%) driven by the sale of our business in Russia partway through 2023. This more than offset higher volume in Bangladesh, the U.S., Brazil and Indonesia;
- Rothmans' value share was down 20 bps (2023: flat) driven by lower value share in Brazil, Romania and Pakistan. Volume was 13.3% lower (2023: 14.6% down) partly due to the sale of our business in Russia with volume lower in Poland, Romania, Ukraine and Nigeria. This more than offset higher volume in Brazil and Italy; and
- Pall Mall's value share was 30 bps lower (2023: 30 bps down) as growth in Pakistan, Mexico and Romania was more than offset by lower value share in the U.S. and Germany. Volume was down 7.0% (2023: down 15.9%) as higher volume in Pakistan was more than offset by lower volume in the U.S. and Chile, and the impact of exit markets.

The Group's U.S. domestic strategic combustible portfolio was 20 bps down:

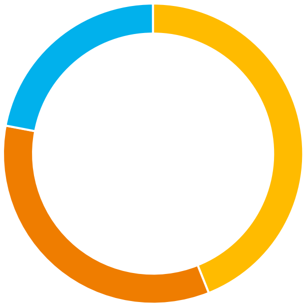
- Newport value share decreased 20 bps (2023: down 50 bps), while volume declined 11.1% (2023: down 14.7%);
- Natural American Spirit performed well with value share up 10 bps (2023: up 30 bps). Volume was 10.0% down (2023: down 3.5%); and
- Camel's value share declined 30 bps in the U.S. (2023: down 50 bps) with volume 13.2% down (2023: 14.0% down), driven by competitive pricing pressures.

Volume of other tobacco products (OTP) declined 11.2% to 13.0 billion sticks equivalent (2023: 11.0% decline), being 3% of the Group's combustible portfolio (2023: 3%).

Revenue

In 2024, revenue from combustibles was down 6.4% to £20,685 million (2023: £22,108 million, down 4.0%). Pricing in both years was strong with price/mix in 2024 at 5.3% and 7.5% in 2023. However, this was offset by the decrease in volume in both years as described earlier.

Proportion of combustibles revenue by region in 2024
(£m)



	2024 £m	2023 £m
U.S.	**9,094**	9,744
AME	**7,039**	7,614
APMEA	**4,552**	4,750
Total	**20,685**	22,108

Revenue is affected by the relative movement of sterling against the Group's reporting currencies. In 2024, this was a translational foreign exchange headwind of 4.8%, compared to a headwind of 3.2% in 2023.

In both 2024 and 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 2023, which in aggregate acted as a negative drag on performance by £389 million in 2024 and £380 million in 2023.

After adjusting for the currency headwinds, revenue from combustibles at constant rates of exchange was down 1.6% to £21,748 million, having declined by 0.8% in 2023.

In 2025, we expect significant combustible headwinds to impact performance in APMEA, particularly in Australia where new tobacco regulations come into effect in April 2025 and in Bangladesh following a substantial increase in excise and VAT.

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 are being 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 increase in annual amortisation expense was £1.4 billion.

Note:
1. Scientific evidence available at www.regulations.gov/comment/FDA-2021-N-1349-175111