

Building a Smokeless World

**Accelerating R&D & Innovation
Ecosystem**

Zafar Khan, Group Operations Director

**Capital
Markets
Day**

2024

(Video – R&D Intro)

World-class innovation (an innovation obsessed mindset)



A Transformed eco-system

- World Leading Partners
- Globally Diverse team
- Control & Predictability



Compelling product offers

- Consumer driven technology breakthrough
- Step change in product portfolio



Robust Innovation Pipeline

- Strong Patent Portfolio
- Disruptive innovation pipeline

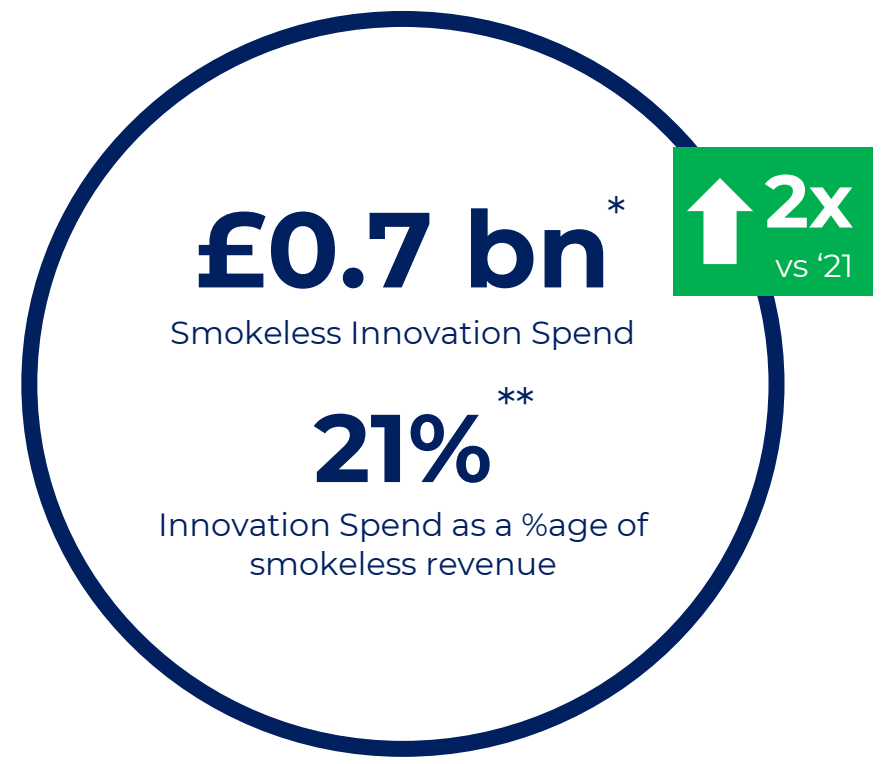
Opportunities identified for the 'step up'

Limited
access to
External Innovation
Network

Gaps in
Internal Capability

Siloed
Multi-Category
Approach

We are investing heavily in our future



Supplier Investment
Augmenting BAT innovation

*2023 FY: Spend includes, innovation spend done by our strategic partners on our innovations
**CPG 1.5-2.5%; Tech 10-15%; Pharma 15-25%

Established a unique & differentiated R&D eco-system



Fully Upgraded Infrastructure

3 Innovation Centres



Strategic Partners
+50 Development partners



Open Innovation Partners



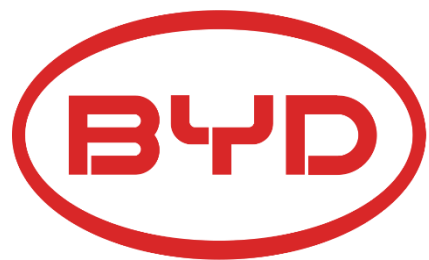
2 First mover Manufacturing Sites



- Global access to multiple levers
- Proximity to network in Asia

Capital Markets Day 2024

Leveraging our combined capabilities to deliver breakthrough innovation



Electronics



SMOORE

All for dreams

Leveraging our combined capabilities to deliver breakthrough innovation

- Advanced Electronics
- Hardware, Software & Power
- Atomisation
- Materials & Finish

50+ development partners



- Consumable Technology Excellence
- Liquids & Flavours
- Blending
- Science & Tobacco Harm Reduction

Established Network of suppliers

- **Strategic** Agreements
- **Priority Access** to Tech

>100 years of R&D experience

(Video – R&D Partnerships)

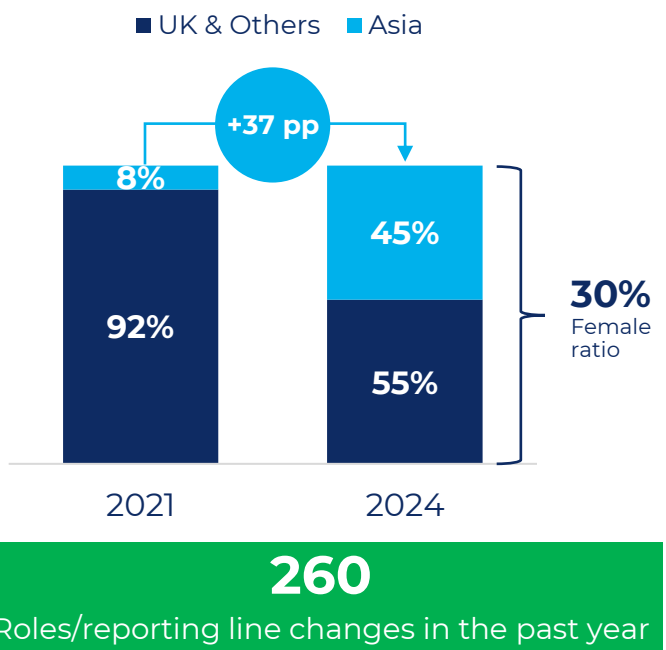
A Global overhaul of in-house organisational capabilities

550
Employees

↑ 2x vs '22
+250 Tech hires



Major redeployment of skills



Focused teams to address consumer preferences

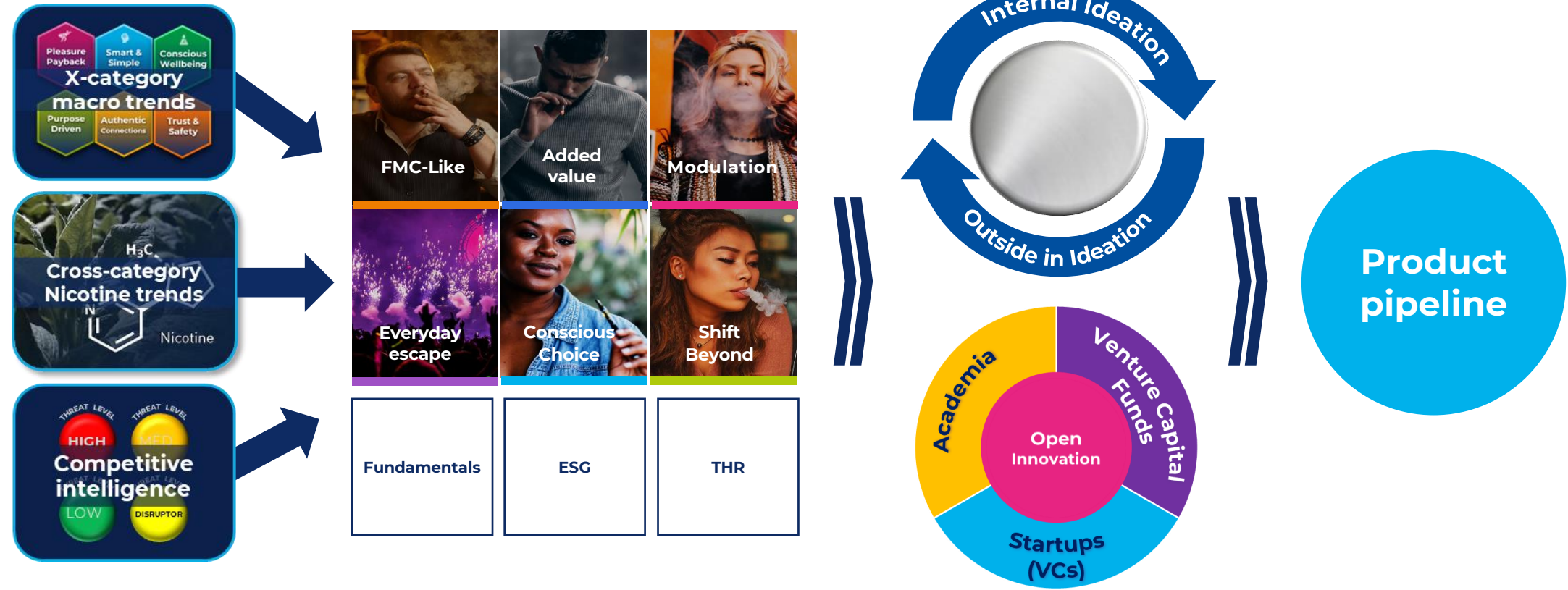
Tech “Centres of Excellence”

“IP”, “Insights & Foresights” and “Science” Teams fully integrated

Globally Diverse Team with **cutting edge Technical** Expertise

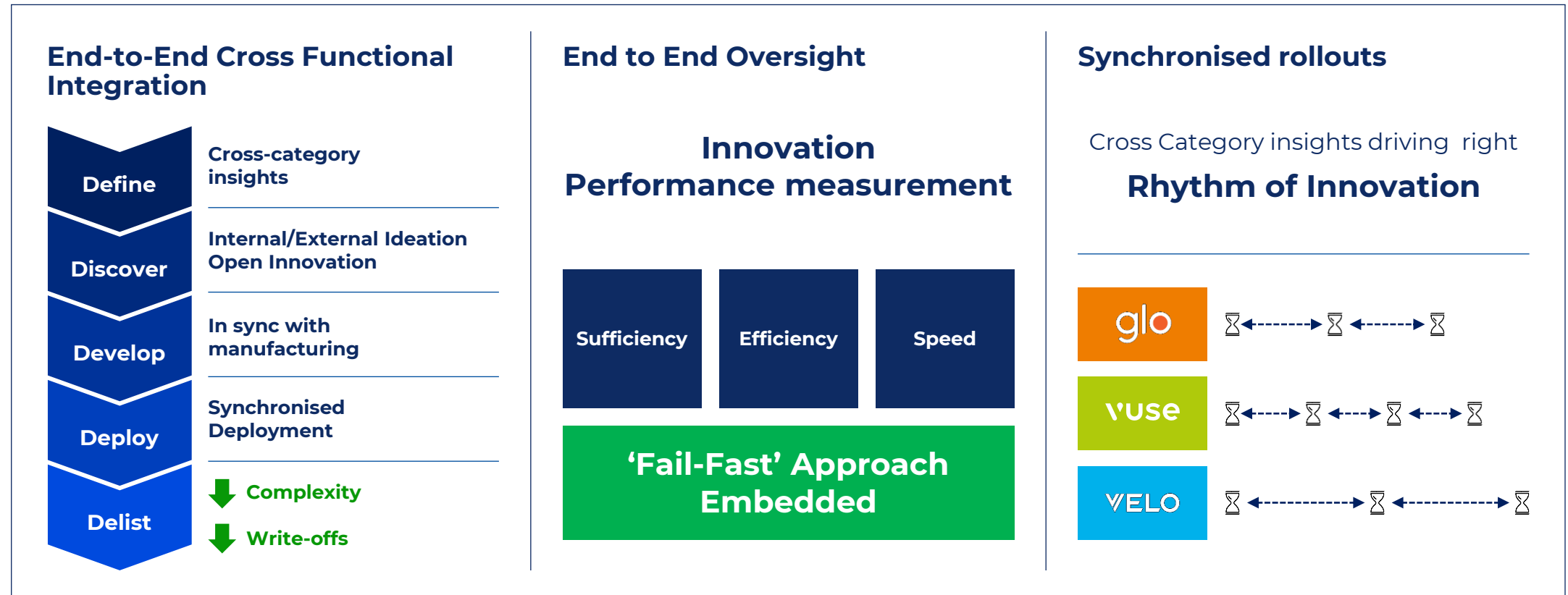
*Includes all functions in Shenzhen Innovation Centre

Consumer preferences are at the heart of our innovations



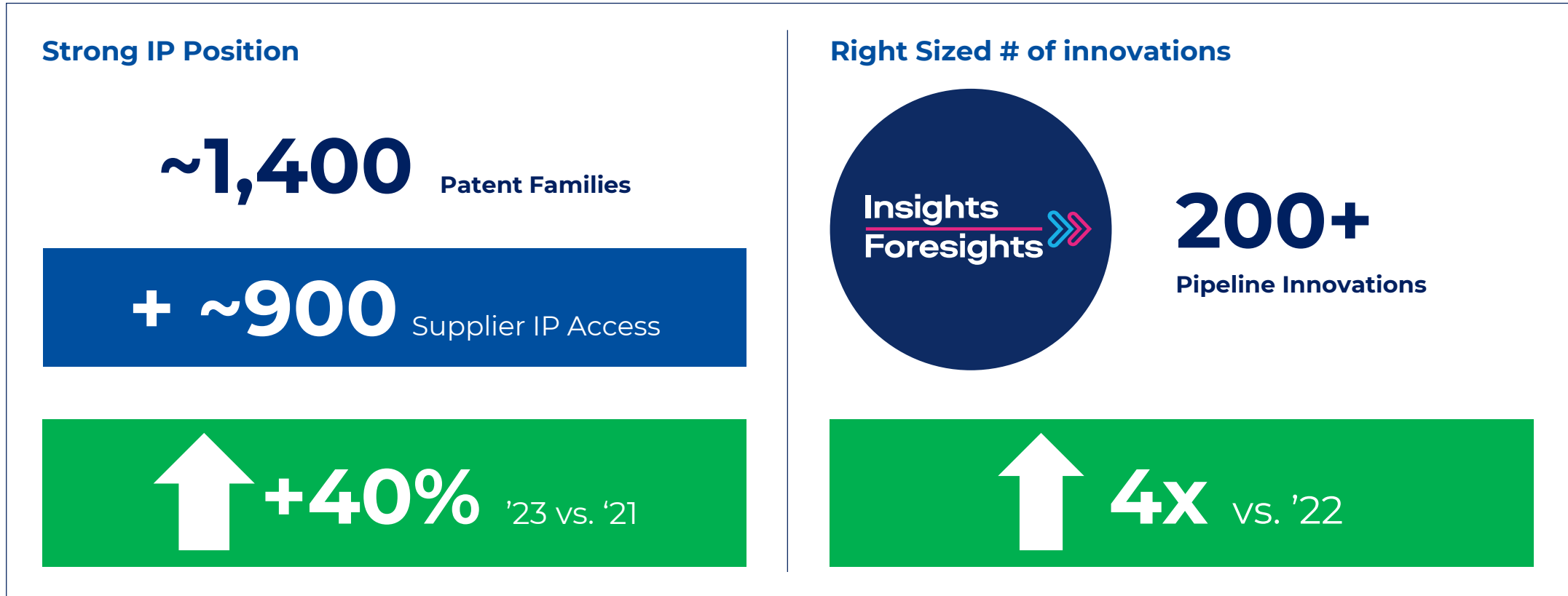
- **Multi-Category** Insights
- **Macro trends** to inform long term pipeline
- Access to **Open Innovation networks**

'Control & predictability' of innovations process



- ★ **Multi-Category End-to-End 'Product Lifecycle Management'**
- Focussed on 'Fewer, Bigger, Better'**

The ecosystem has enabled a robust IP protected pipeline for future leadership



★ A strong 'Menu card' of technology options for multi-category pipeline

*Increase in no. of patent families in one year

Consumer driven technology breakthroughs

Insights Foresights >>> **glo** **vuse** **VELO**

Modulation

Heatboost technology™

Cloud Control features

Modulated Nic delivery tech

Taste satisfaction

Gel Technology

New FlavourMax Technology

Broad coverage of Nic & flavours
consumer adoption journey

Conscious Choice

1st to introduce Tobacco free consumable

Removable batteries

Child resistant & 100% recyclable can

Ease of use & control

1st to introduce Easyview™ screen

Intuitive screen & app

Multicategory insights driving focused breakthrough technology deployment from the **'Menu card'**

“Step change” in product portfolio in-market

Heated Products



#1 in Affordable segment & Competitive in Premium
 Superior* User Interface & Tobacco free offer



Vapour



#1 Globally superior* RCS offer in market
 Portfolio tailored to key consumer moments

Upcoming Breakthroughs



Modern Oral



#1 except USA superior* Portfolio
 Broadest range of strength & flavour
 Stability



Strong Cross-Category portfolio & winning upcoming breakthrough innovation

We are truly “GLOBAL” in our Innovation Ecosystem

Our **Strategic supplier Relationships** are a game changer

- Augment innovation **investment**
- Leverage **specialised & complementary** capabilities
- **Priority** Tech Access & **Strategic** agreements
- **Co-Location** for breakthrough development

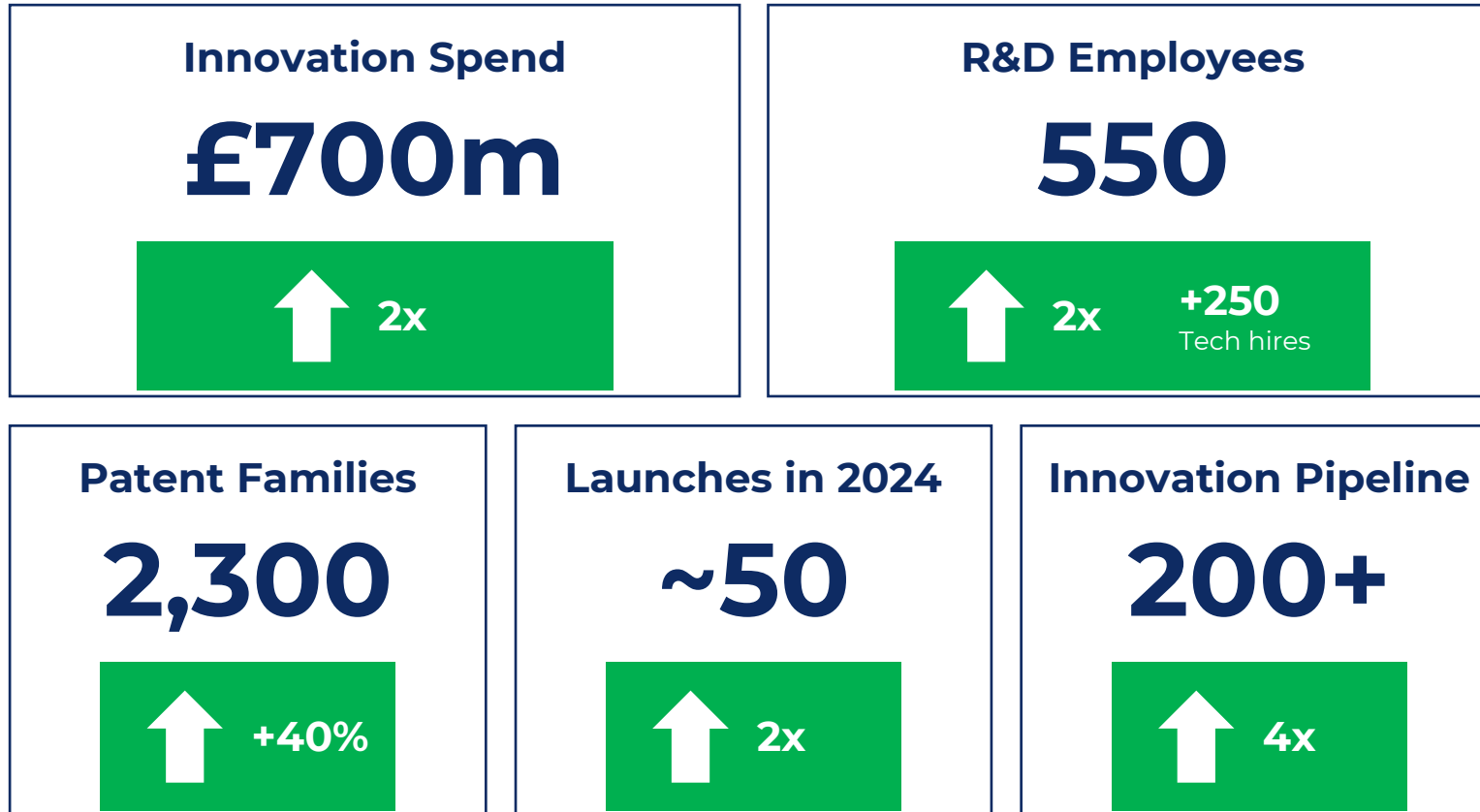
We have significantly amplified our **internal capabilities**

- Upgraded **Infrastructure**
- **Tech. Specialist Headcount** Induction
- Cross-Functional **Collaboration** – IP, Insights & Foresights, Science
- A Robust **End-to-End** ‘Product Lifecycle Management’

We are the only player with a history & **presence across all 3 categories**

- **Cross-Category** insights & foresights
- Rhythm of Innovation – **Synchronised deployment**
- **Menu card** of Tech. options

In Summary: our progress in numbers





Ready to Deliver
“A Better Tomorrow”

Appendix

A1: Adjusting (Adj.)

Adjusting items represent certain items which the Group considers distinctive based upon their size, nature or incidence.

A2: Constant currency

Constant currency – measures are calculated based on the prior year's exchange rate, removing the potentially distorting effect of translational foreign exchange on the Group's results. The Group does not adjust for normal transactional gains or losses in profit from operations which are generated by exchange rate movements.

A3: Share metrics

Through Aug 2024 unless otherwise stated.

Volume share: The estimated number of units bought by consumers of a specific brand or combination of brands, as a proportion of the total estimated units bought by consumers in the industry, category or other sub-categorisation. Sub-categories include, but are not limited to, the total nicotine category, Modern Oral, Vapour, Traditional Oral or cigarettes. Corporate volume share is the share held by BAT Group. Except when referencing particular markets, volume share is based on our top markets.

Value share: The estimated retail value of units bought by consumers of a particular brand or combination of brands, as a proportion of the total estimated retail value of units bought by consumers in the industry, category or other sub-categorisation in discussion.

A4: Price/Mix

Price mix is a term used by management and investors to explain the movement in revenue between periods. Revenue is affected by the volume (how many units are sold) and the value (how much is each unit sold for). Price mix is used to explain the value component of the sales as the Group sells each unit for a value (price) but may also achieve a movement in revenue due to the relative proportions of higher value volume sold compared to lower value volume sold (mix).

A5: Free Cash Flow

Net cash generated from operating activities before the impact of trading loans provided to a third party and after dividends paid to non-controlling interests, net interest paid and net capital expenditure.

A6: Operating Cash Conversion

Net cash generated from operating activities before the impact of adjusting items and dividends from associates and excluding trading loans to third parties, pension short fall funding, taxes paid and net capital expenditure, as a proportion of adjusted profit from operations.

A7: Organic

To supplement the Group's results presented in accordance with International Financial Reporting Standards (IFRS), the Group's Management Board, as the chief operating decision maker, reviews certain of its results, including revenue and adjusted profit from operations, at constant rates of exchange, prior to the impact of businesses sold or held-for-sale. Although the Group does not believe that these measures are a substitute for IFRS measures, the Group does believe that such results excluding the impact of businesses sold or to be held-for-sale provide additional useful information to investors regarding the underlying performance of the business on a comparable basis and in the case of the divestment of the Group's businesses in Russia and Belarus, the impact these businesses had on revenue and profit from operations. Accordingly, the organic financial measures appearing in this document should be read in conjunction with the Group's results as reported under IFRS. The exits referred to in respect of other markets, including in Africa, are not deemed significant to the users' understanding.

A8: Poly-usage

- **Combustibles Poly-use** – refers to the use by an adult* consumer of both Combustibles products and potentially reduced risk tobacco and nicotine products which for many smokers is part of a transitional period where those consumers move towards a complete switch to potentially reduced-risk products by reducing the consumption of combustible tobacco products and replacing them with one or more potentially reduced-risk products.
- **New Categories Poly-use ("NC Poly-use")** – refers to the consumption of two or more potentially reduced-risk tobacco or nicotine product categories by adult* consumers who do not consume any Combustibles products.
- **Total Poly-use** – total number of adult* consumers consuming two or more tobacco and/or nicotine products, which may or may not include Combustibles products. * As defined by the relevant local law but shall in no circumstance refer to any person under the age of 18; and shall in no circumstance refer to any person under the age of 21 in the U.S.

A9: Adjusted net debt to adjusted EBITDA

Net debt, excluding the impact of the revaluation of Reynolds American Inc. acquired debt arising as part of the purchase price allocation process, as a proportion of profit for the year (earnings) before net finance costs (interest), tax, depreciation, amortisation, impairment, associates and adjusting items

A10: Consumers of Smokeless Products

The number of consumers of Smokeless products is defined as the estimated number of Legal Age (minimum 18 years) consumers of the Group's Smokeless products - which does not necessarily mean these users are solus consumers of these products. In markets where regular consumer tracking is in place, this estimate is obtained from adult consumer tracking studies conducted by third parties (including Kantar). In markets where regular consumer tracking is not in place, the number of consumers of Smokeless products is derived from volume sales of consumables and devices in such markets, using consumption patterns obtained from other similar markets with adult consumer tracking (utilising studies conducted by third parties, including Kantar). The number of consumers is adjusted for those identified (as part of the consumer tracking studies undertaken) as using more than one BAT Brand – referred to as "poly users".

The number of Smokeless products consumers is used by management to assess the number of consumers using the Group's New Categories products as the increase in Smokeless products is a key pillar of the Group's ESG ambition and is integral to the sustainability of our business.

A11: Smokeless Products

Refers to Non-Combustibles, including Vapour products, Heated Products, Modern Oral and Traditional Oral.