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Winning in Nicotine Products

Des Naughton

10th September 2013

- Why we are in the Nicotine Category?
- What is the potential of the category?
- How we leverage our capabilities to win?
- How are we organising our business?
- What is happening in the category today?
- Where we are on our products?

Why we
are in the
nicotine
category



Why we are in the nicotine category

- There is a clear fit with our strategy and consumers
- We've been working on it for some time
- It's relevant to our consumers and capabilities internationally
- And offers potential for:
 - Consumers
 - Regulators, and tobacco harm reduction
 - Retailers
 - Shareholders
- It's developing here and being shaped 'here and now'
- We have been early investors in technology and want to be early starters in the category



How we view the potential of the category

- Whereas it is as yet an un-established category the early indicators are positive
- It may well in time be large but too early to forecast
 - USA certainly demonstrating potential (latest Nielsen estimate for 2013 is \$1.7bn)
- It's too early to see the relationship and impact on tobacco
- Margin potential is there but too early to estimate and will depend on several factors, but the basics should support attractive margins
- Clear opportunity for us to innovate, deliver superior products, grow an international footprint and scale
- Product performance will improve and support brand development

Leveraging
our
capabilities
to win

- Our consumer understanding and insights
- R&D, Scientific and Product Knowledge capability
- Acquired and developed technology
- Brand building expertise
- Field force and distribution know how and assets
- Global understanding, reach, speed and scale
- Ability to build capability and flexibility
- Ability to invest both for short and longer term advantage

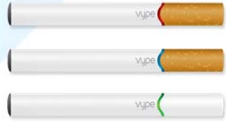
How we
are
organised
to win

- Nicoventures is separately structured and focused solely on nicotine products whilst being part of BAT
 - Brought together BAT, R&D, Nicoventures, CN Creative
 - No distraction of tobacco business
- Leverage key technology, products and know how in one team
- Deploy a portfolio of products and brands as category 'pathfinders' for consumers and retailers
- Building specific marketing, R&D, Supply Chain and medicinal licence capability
- Work with and leverage BAT capabilities and assets as appropriate as markets evolve

What is happening in the category today

Products

Disposable



Rechargeable



Modular



Aerosol

Market Types

'USA'



'Italy/Poland'



'Aus/Jap/Bra'



All markets and product groups undergoing dynamic experimentation and shifts for which we have monitored and developed insights

What is
happening
in the
category
today

Consumers (Multiple Country Study 2012 & 2013)

- High and growing awareness, trial and usage across all countries
 - Usage varies a lot and a high proportion is occasional
- Where people buy product is subject to change and is critical to how markets and brands will evolve
 - On line versus off line is a critical shift
 - Retail proliferation has certainly shaped the USA market
- Interesting insights into how people use their products that will shape future innovation, product and branding opportunity
- Brands not yet established

What is happening in the category today

Perception of the product performance of e-cigarettes are quite consistent

Positive

Moderation	Social consideration	Taste / Flavor Options	Convenience
Less harmful	No Bad smell	Different flavours	Smoke anywhere
Reduce cig use	Protect surrounding	Experiment different tastes	Smoke indoor

Negative

Battery Life	Design / Style	Low satisfaction	Usage /Handling
Low battery life	Poor Design	Less satisfying than cigs	Complex usage
Frequent charging	Poor Styling	Weak smoking experience	Difficult to handle

What is
happening
in the
category
today

Regulation

- Status varies globally, not much 'decided' yet
- EU/USA most imminent, range of possible outcomes
- The debate is growing including consumers
- The category would be best served by
 - Clear and high product standards
 - Wide marketing freedoms
 - Ease of bringing innovation to consumers
- Avoiding 'extremes' of any particular regulation
- We will have a flexible approach to products and innovation pipeline to be able to work across different regulatory regimes

Where we
are on
Vype

- Launched on line on 29th July 2013
- Initial feedback from our targeted consumer is very good
- Very positive results from extended consumer tests (August '13)
- Building retail distribution and in September followed by our re-chargeables launch in October
- Confident outlook for 2014

**Where we
are on our
products
being
developed
for MHRA
approval**

- In partnership with Kind Consumer
- Good progress on MAA
- Very good results from extended consumer testing in 2012 and 2013

Winning in Nicotine Products

- Strong fit with our strategy and capability
- Early days but sufficient promise of category potential
- We started early with technology and building capability and now beginning to deploy products, brands and build a footprint
- High level of confidence in our plans and potential to win in this category





Investor Day 2013