2025 Preliminary Results

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Tadeu Marroco, Chief Executive

Good morning, everyone. I am delighted to welcome you to our full year 2025 results presentation. With me this morning is Javed Iqbal, Interim CFO, and Victoria Buxton, Group Head of Investor Relations.

I will begin with our transformation highlights.

Javed will then take you through our financial results in more detail. Finally, I will return to talk more about our performance outlook, and why we are confident in the pathway ahead, given the clear momentum we are driving.

We will then take your questions.

With that, I would like to draw your attention to the disclaimers on slides 2 and 3.

Slide 4

Let's begin by looking at the positive transformation momentum we are driving.

Slide 5

Starting with some key highlights.

We added 4.7 million smokeless consumers, bringing our total to 34.1 million, mainly driven by our continued strong performance in Modern Oral. This marks our strongest growth acceleration to date and positions us well for 2026.

We delivered 2025 Group results at the top end of guidance, driven by resilient delivery in combustibles, and an excellent performance from Velo in all 3 regions.

Our disciplined focus on Quality Growth continues to improve returns on more targeted investment, with New Category contribution up 77%, at constant rates.

Alongside this, we remain committed to investing behind our premium innovation launches, supporting long-term value creation.

We continue to deliver strong cash returns for shareholders. In addition to our progressive dividend, in December, we announced an increase to our share buy-back to 1.3 billion pounds in 2026.

Looking ahead, we are confident in returning to our mid-term algorithm this year, with the accelerated momentum through the second half of 2025, positioning us well for continued delivery.

Slide 6

I am proud that we have delivered on all of our 2025 priorities, and I want to thank our teams around the world for driving these encouraging results.

Our performance reflects the clear momentum we are driving as we continue to build a track record of delivery.

I would like to take a moment to highlight two areas from last year that stand out to me.

First, the return to both revenue and profit growth in the U.S. for the first time since 2022, a significant milestone driven by stronger combustibles performance, a return to revenue growth in Vapour in H2, and Modern Oral.

As a result, we grew 30 basis points of combustibles value share.

Second, we are delivering quality growth in New Categories, launching premium innovations in each category, while delivering a return to double-digit revenue growth in H2, and category contribution growth up 77% for the full-year.

The progress we made in 2025 reinforces my confidence in our future delivery.

And with that, I will hand over to Javed to take you through our 2025 performance in more detail.

Javed Iqbal, Interim Chief Financial Officer

Slide 7

Thank you, Tadeu. And good morning, everyone.

Slide 8

I'm pleased to share that we delivered results at the top end of guidance, on a constant currency basis.

This performance was driven by:

- the return to growth in the U.S.
- a robust performance in AME, and
- the strength of Modern Oral globally.

Our reported numbers reflect some adjusting items, including:

- Nearly 1.6 billion pounds, mainly related to the annual amortisation of our U.S. acquired trademarks.

- A net credit of 524 million pounds following a change in the forecasted outlook for the Canadian combustibles industry.

- We also recognised a gain of nearly 900 million pounds from the partial monetisation of our ITC stake.

To give you a clear view of our underlying performance, I will focus on constant currency, adjusted and, where applicable, adjusted for Canada metrics.

You can find further detail on adjusting items and share data in the Appendix.

Slide 9

We delivered Group results at the top end of guidance, supported by accelerating momentum through the second half:

- Group revenue increased by 2.1%.
- Adjusted gross profit rose 3.4%.
- Adjusted profit from operations grew 2.3%.
- And adjusted diluted EPS was up 3.4%.

Slide 10

Let's now turn to New Categories.

Revenue grew 7%, driven by outstanding growth in Modern Oral, which was up strongly by 48%, with Heated Products up 1%.

This was partly offset by a nearly 9% decline in Vapour, mainly due to continued illicit pressures in the U.S. and Canada. Our second-half Vuse performance showed a clear improvement versus the mid-teens decline in H1, supported by early signs of stronger enforcement activity in the U.S.

We continue to deliver quality growth, with gross profit up over 200 million pounds and category contribution reaching 442 million pounds.

This reflects our disciplined approach to Return-On-Investment, targeted investments in high-value markets, and increasing scale benefits across our portfolio.

I'm proud of the progress we're making, and I am particularly pleased with our accelerated H2 momentum, where we returned to double-digit New Category revenue growth.

Slide 11

Now, turning to combustibles.

Revenue grew 1%, with volume decline more than offset by continued robust price/mix across markets.

We delivered quality growth here too:

- Both gross profit and category contribution increased 2.5%

- driven by a strong performance in the U.S., positive price/mix, and continued productivity and simplification gains, which I'll speak to shortly.

Our performance highlights the breadth of our global footprint, with strong delivery in the U.S. and AME, more than offsetting fiscal and regulatory headwinds in Bangladesh and Australia, which impacted total Group revenue by around 1% and Group adjusted profit from operations by around 2%.

This resilience, and increasing momentum in H2, reinforces our confidence in future delivery.

Slide 12

Turning to our regions, starting with the U.S.

In combustibles, we delivered a 4.6% increase in revenue, with our strengthened portfolio, sharper execution, and enhanced revenue growth management, driving price/mix, including excise duty drawback. Value share increased 30 basis points, with volume share down 10 basis points.

In New Categories, revenue grew nearly 20%, driven by the success of Velo Plus, which delivered over 300% growth.

While Vapour revenue was down 3.4% for the full year, we are encouraged that Vuse returned to revenue growth in H2, supported by early signs of enforcement actions.

Overall, U.S. revenue increased 5.5% and adjusted profit grew 5.9%, mostly driven by a strong combustibles performance.

Importantly, Velo Plus reached positive category contribution within its first year, underscoring the scalability of our Modern Oral business model.

Tadeu will share more detail on the U.S. shortly.

Slide 13

In AME, we delivered another robust performance.

Revenue grew over 3%, with combustibles up more than 2%, supported by strong delivery in Brazil, Türkiye and Mexico with solid pricing.

New Category revenue increased 4.3%, mainly driven by Modern Oral, which grew over 17%. We are the clear Modern Oral leaders in the region, with over 60% volume share in top markets, selling at a premium and strongly outperforming peers, which Tadeu will expand on later.

Growth was further supported by Heated Products, with revenue up over 6%, driven by Italy, Germany and Ukraine. This was partially offset by competitive dynamics in Romania as we reallocated resources ahead of the glo Hilo launch.

Vapour revenue declined more than 11%, mostly impacted by the lack of illicit enforcement in Canada and regulatory and excise changes in the UK, France and Poland.

Adjusted operating profit grew by nearly 10%, driven by:

- operating leverage and efficiency gains in combustibles; and
- scale benefits and resource allocation driving improved contribution across all three New Categories.

AME is a true multi-category region, delivering high-quality growth and demonstrating the resilience and balance of our portfolio.

Slide 14

In APMEA, growth in key markets including Pakistan, Nigeria and Indonesia, was more than offset by fiscal and regulatory headwinds in Bangladesh and Australia.

Total revenue declined 7.2%, with combustibles down 8.3%.

New Category revenue was down 7.6%. Strong growth in Modern Oral was more than offset by heightened competitive activity in Heated Products in the value-for-money segment in South Korea and Japan, alongside the phase-out of our super-slims platform.

Our Vapour performance reflects strategic decisions taken to reduce our footprint and reallocate resources away from markets where regulation and enforcement do not support a responsible, competitive landscape.

Adjusted operating profit was down 17.9%, mainly due to the challenges in Bangladesh and Australia.

As we continue to navigate headwinds into 2026, we expect our performance to stabilise for the full year, supported by Bangladesh as we lap last year's decline, and with the drag from Australia becoming progressively less material year-on-year.

Slide 15

Turning now to our Group operating margin, which was broadly flat at 44%.

We successfully offset inflationary and FX pressures through a strong U.S. performance, higher profitability in New Categories, and continued cost savings.

Transactional FX headwinds on adjusted operating profit of approximately 1% were primarily driven by Türkiye, Japan and Nigeria.

At current rates, operating margin expanded by close to 10 basis points.

Slide 16

BAT has a strong track record of disciplined cost savings, and we continue to build on that foundation.

Since 2023, we have delivered 1.2 billion pounds in productivity savings. These efficiencies help us offset inflationary pressures and foreign exchange headwinds, while continuing to fund innovation and growth in New Categories.

In 2025 alone, we absorbed around 300 million pounds of inflationary cost increases in addition to transactional FX.

Looking ahead, we remain focused on simplifying combustibles and scaling New Categories, targeting a further 2 billion pounds in productivity savings by 2030.

In addition, we now expect our Fit2Win programme, to deliver 600 million pounds of annualised incremental savings by 2028.

We expect around 500 million pounds of these savings to be delivered by 2027, with the remaining benefits realised by the end of 2028.

We are committed to reinvesting these savings to support further sustainable growth initiatives.

Slide 17

Fit2Win is a transformational project that is re-inventing BAT.

As outlined at our 2025 half-year results, it is centred on optimising processes and ways of working to create a leaner, faster and more data-driven organisation.

Since half year, we have made strong progress. We have expanded the programme to include organisational streamlining to sharpen focus and improve speed of execution, allowing us to raise total annualised savings by a further 100 million pounds.

To unlock these benefits, we now expect around 600 million pounds of associated costs over the next two years. As a structured time-bound programme, 500 million pounds will be treated as adjusting, including around 100 million pounds of non-cash items. As previously guided, this spend is already underway, with the majority of costs expected to be incurred this year, and concluding in 2027.

Slide 18

Bringing it all together,

Earnings per share increased by 3.4%, as operating profit growth and lower share count was partly offset by net finance costs, our reduced share of ITC profits and tax.

Our underlying tax rate was 24.5%.

Slide 19

Our strong cash generation continues to enhance our financial flexibility.

This has enabled us to announce a 2% increase in our dividend and increase our share buyback by 200 million pounds to 1.3 billion pounds for 2026.

Alongside this, we continued to delever to 2.55 times adjusted net debt to adjusted EBITDA at the end of 2025, and we remain on track to be within our 2 to 2.5 times target range by year-end.

While our 2025 cash delivery was impacted by the CCAA upfront payment, and the prior year deferral of tax payments in the U.S., we remain on track to deliver more than 50 billion pounds in free cash flow by the end of 2030.

And we continue to focus on our capital allocation priorities, which are:

- investing in transformation,

- balancing deleveraging with progressive dividends and sustainable share buybacks, and
- selective bolt-on M&A to support our transformation.

Slide 20

I'm excited about the future, and confident in our ability to deliver our mid-term algorithm of:

- 3 to 5% revenue growth;
- 4 to 6% adjusted profit from operations growth; and
- 5 to 8% adjusted, diluted EPS growth.

Our return to this mid-term algorithm in 2026 marks a major milestone in our transformation journey, and reinforces the strength and resilience of our strategy.

Our confidence is underpinned by

- Continued growth in the U.S.;
- Robust multi-category delivery in AME;
- Low double-digit New Category revenue growth led by Velo globally;
- A further improvement in New Category contribution;
- And continued savings from our productivity programmes.

Although we still have more work to do, and it will take time to stabilise performance in APMEA, we will continue to invest in our premium innovation roll-outs.

As a result, we expect 2026 to be at the lower end of these ranges, and our profit performance to be second-half weighted, driven by the phasing of New Category investment and as Fit2Win savings build through the year.

And with that, I'll hand it back to Tadeu.

Tadeu Marroco, Chief Executive

Slide 21

So, moving now to the positive transformation momentum we are driving…

Slide 22

In 2023, when I became Chief Executive, I committed to sharpening our focus and execution, guided by a refined strategy and ambition to become a predominantly smokeless business by 2035.

Slide 23

And I am proud to say that we have made significant progress across all three strategic pillars, as we continue to build a track record of delivery.

While there is still more to do, I am confident that our focused investments and sharper execution are driving real momentum, as you can see from our 2025 results.

Slide 24

Our progress underpins our confidence in sustainably delivering our mid-term algorithm, while continuing to reward shareholders with strong cash returns.

I'd now like to highlight five points that demonstrate this.

Slide 25

First, we have successfully re-set our U.S. business, returning to revenue and profit growth in 2025.

While the U.S. macroeconomic environment remains dynamic, the pace of combustibles industry volume decline started to moderate in 2025, down 7.4%.

Against this backdrop, driven by the actions we have taken to strengthen our portfolio and sharpen execution, our U.S. combustibles business delivered strong revenue and profit growth in 2025.

Driving value from our combustibles business is essential to funding our transformation, and the U.S. is a key driver of this. In line with this strategy, we gained 30 basis points of total industry value share.

I am particularly encouraged that our financial performance accelerated in the second half. This positive momentum reinforces my confidence in the resilience of our U.S. combustibles business, and our ability to deliver sustainable value going forward.

Slide 26

Velo Plus is the fastest growing Modern Oral brand in the largest Modern Oral value pool globally.

Since launch at the end of 2024, it has already reached the number two position in both volume and value share, gaining nearly 18 percentage points of volume share and nearly 14 points of value share... And we are pleased that our share momentum has continued into the start of 2026.

Velo Plus has more than doubled its consumer base and driven over 300 percent Modern Oral revenue growth, capturing around 70% of industry volume growth and 80% of industry value growth in December.

All of this, is underpinned by a consistent repurchase rate of around 70% through the year.

Importantly, we achieved positive category contribution within the first 12 months of launch – fully aligned with Velo's global payback profile.

The total U.S. Modern Oral category continues to grow strongly and has already overtaken the size of the legitimate Vapour category, at over 2 billion pounds of revenue in 2025.

Velo Plus is a great product, and these results demonstrate this, in what remains a highly dynamic category.

Its impressive success also highlights the broader strength of our U.S. capabilities and executional excellence, from consumer insights and branding, to enhanced digital analytics and distribution, enabled by a rejuvenated Reynolds.

Our performance was further enhanced by the successful launch of Grizzly Modern Oral in the summer, which achieved close to 2% volume share by year end, taking our total volume share of U.S. Modern Oral to 25.8%.

Through this momentum, I am delighted to announce that at the end of the year, we reached global volume share leadership in Modern Oral, measured across the top Modern Oral markets, representing around 90% of total industry revenue.

Slide 27

Second, we are premiumising our New Category portfolio.

Velo is already the clear European leader, around 6 times larger than our nearest competitor.

We continue to focus on consumer-led innovation to strengthen product satisfaction among adult consumers and extend Velo's success.

At the start of this year, we began the nationwide roll-out of our latest innovation, Velo Shift, in Sweden, following a successful pilot with key retailers and online partners. Velo Shift is reshaping the Modern Oral experience, featuring a new comfort-pouch design, five distinct sensory flavours, and a differentiated hexcan that stands out on shelf.

Trading at a premium to the core Velo range, Velo Shift is already driving incremental share in the channels where it has launched, with further market roll-outs planned through 2026.

These results highlight not only the strength of the Velo brand and innovation pipeline, but also the quality of our execution across European markets.

Slide 28

We see Premium "Vapour Done Right" as a highly attractive, untapped segment for further value creation.

Vuse Ultra is our most advanced vapour device yet, driving meaningful performance improvement for Vuse in markets where we have launched, including value share gains of:

- nearly eight percentage points in Canada;
- close to 4 percentage points in Germany; and
- above 2 percentage points in France.

As Javed highlighted, we have made proactive strategic decisions to focus our execution on the largest profit pools, with more supportive regulation and enforcement.

Vuse Ultra is central to this approach, and I am encouraged by the strength of its early performance, with further launches planned in key markets in 2026.

Slide 29

Our breakthrough innovation platform, glo Hilo, introduces our first two-piece device, and is designed to establish glo in the premium segment.

While still early days, we are starting to drive encouraging results in priority launch markets – Japan, Poland and Italy – with the majority of consumers new to glo, coming from both premium combustibles, and the broader Heated Products category.

We are also strengthening glo's overall brand equity across key consumer metrics, this consumer response is translating into early volume share momentum.

We are encouraged by early trial to retention rates of around 50%, providing further confidence in the platform's potential.

In 2026, our focus will be on accelerating trial among premium consumers across both combustibles and Heated Products, supported by targeted online and in-person activations.

We will continue to scale glo Hilo through additional market roll-outs in the largest Heated Product profit pools, where we can generate the strongest returns.

Overall, we remain confident in the strength of this innovation platform and expect to progressively build share within the premium segment over time.

Slide 30

As Javed highlighted, the Heated Products category remains highly competitive, and this has impacted our 2025 performance in the value-for-money segment, where we are present with glo Hyper.

Introducing glo Hilo into the premium space allows us to further differentiate and tier our portfolio. We see a clear opportunity to strengthen glo's overall performance across both premium and value-for-money segments.

Central to this is the launch of our next-generation glo Hyper device from Q2.

The new glo Hyper delivers a step-change, offering:

- QuickStart™,
- longer standard session length,
- new connectivity, and
- a replaceable battery.

These innovations significantly improve the consumer experience, and we are also further enhancing the consumables range.

Taken together, these upgrades create a much stronger proposition, designed to reinforce our competitiveness in the value-for-money segment.

Slide 31

Third, I am proud of the strong progress we have made in improving New Category profitability.

Since 2021, we have driven a 1.4 billion pounds improvement in category contribution, with all 3 New Categories contributing to this momentum.

Importantly, we have achieved this while continuing to invest in our transformation to drive future sustainable growth.

Our New Categories are meaningfully contributing to Group results, as we benefit from increased scale, reflecting traction in established markets while continuing to invest in new market launches.

This is supported by more consistent and constructive regulatory frameworks, such as those now in place for Modern Oral in 24 markets, up from just 4 markets in 2022.

We have sequentially improved our performance each year, and through our Quality Growth approach we remain committed to driving sustainable profitability improvement moving forward.

Slide 32

Fourth, I am encouraged by the signs of positive progress we are seeing in the regulation and enforcement of New Categories, especially in the U.S.

While the Vapour category continues to be impacted by the proliferation of illicit products, Vuse returned to revenue growth in the second half after 18 months of decline.

This has been supported by increased state level enforcement, with Vapour directory and enforcement legislation representing around 50% of tracked industry volume by year-end.

In addition, Vuse's performance in the second half benefitted from a competitor exit, further strengthening our market position.

Slide 33

Our recovery has also been supported by early signs of increased federal enforcement targeting borders and larger distributors, resulting in higher levels of seizures and fines.

Looking ahead, we are encouraged by the increased focus and funding directed toward strengthening the FDA's enforcement capabilities.

We were also pleased to receive a favourable initial determination on our International Trade Commission complaint from the Administrative Law Judge, who has recommended a General Exclusion Order on imported illicit vapour devices. We expect a final determination from the ITC in the coming weeks, which will then be subject to a 60-day presidential review.

With an estimated 70% of the U.S. vapour industry value still illicit, we are hopeful the authorities will continue with enforcement initiatives in 2026.

Reynolds continues to advocate for a level playing field so that adult nicotine consumers have access to high-quality, compliant vapour products.

Over time, we believe Vuse is well-positioned to benefit from stronger enforcement at both the federal and state levels.

Slide 34

In addition, the FDA has recently recognised the positive role that nicotine pouches can play in helping adult smokers, who would otherwise continue to smoke, to transition to less risky alternatives[*†]. We welcome the FDA's new pilot programme to streamline the PMTA review process for nicotine pouches. This is an important step toward keeping underage-appealing, illicit products out of the market, while giving responsible manufacturers a more predictable path to PMTA authorisation.

We are confident in the strength of our science and portfolio, and we look forward to being able to complement our existing U.S. portfolio with Velo Max, a higher moisture Modern Oral product in 2026, and we have increased capacity to support our sustainable growth agenda.

Slide 35

And the final point I'd like to highlight, is that our financial flexibility continues to strengthen, and we remain on track to generate more than 50 billion pounds of free cash flow by 2030.

BAT is a highly cash generative business, delivering at least 100% operating cash conversion annually since 2020, reflecting our strong cash discipline and clear focus on returns, and enabling us to return 34 billion pounds of cash to shareholders over the same period.

We remain committed to delivering sustainable shareholder returns, with a 25 year track record of dividend growth, and our sustainable share buy-back programme.

Slide 36

I am confident that we will sustainably deliver our mid-term algorithm, as we are firmly committed to: growing revenue sustainably and improving profitability.

Slide 37

To conclude, we are carrying momentum into 2026, underpinned by a robust innovation pipeline, strong strategic partnerships and confidence in our future fit capabilities.

We are executing with discipline and delivering against our priorities.

At the same time, we are enhancing financial flexibility, enabling continued investment in our transformation together with strong cash returns.

I am excited about the future for BAT and believe we are well positioned to deliver long-term, sustainable growth and value for all our stakeholders.

Slide 38

Thank you for listening.

We will now be joined on stage by Victoria for the question-and-answer session.

Victoria Buxton – Group Head of Investor Relations

Thank you, Tadeu and Javed. And good morning, everyone.

If you have joined us via the webcast, you can type your questions directly into the on-line question box.

Or, if you have joined the call, you can press 'star one' on your telephone keypad.

Tadeu and Javed will be very happy to take your questions, and I will now hand over to the conference call operator.

[Q&A SESSION COMMENCES]

Operator

Thank you. Our first question is from Andrei Andon-Ionita from Jefferies. Please go ahead, sir.

Andrei Andon-Ionita, Jefferies

Good morning, Tadeu, Javed, and VB, and thank you very much for taking my questions. First of all, two questions on Modern Oral, please. Number one, what are your expectations in terms of performance in the U.S. in fiscal '26 for Modern Oral specifically? And secondly, are these expectations underpinned by the FDA approving the European Velo product for sale in the U.S., or are they mainly driven by the existing Velo Plus product? And perhaps finally, in terms of profitability, could you tell us a bit more about how you expect New Category profitability to evolve in fiscal '26? Thank you.

Tadeu Marroco, Chief Executive

Okay, Andrei. Thank you for the question. Look, we have a very strong product with Velo Plus in the U.S. The level of retention has been 70% throughout the year, which is really, really a very strong rate when you compare with other offers in the market. So basically, at the back of that, we believe that the product is competitive enough to continue growing in the U.S. market, has all the indications from that. Today, we still have a low level of awareness in the brand, around 30%.

And we are present now in 150 plus thousand outlets, which account for something like 93% of the total Oral revenue. We are also seeing that the average daily consumption, as new products start to be more satisfying for consumers in the U.S., is increasing. So it used to be around 2.8 pouches per day. Today it’s around 3.6 pouches per day.

If you compare that with the European market, which is around 6 pouches per day, you see a lot of potential growth still in the U.S. and the Nordics is 12 pouches per day. So when you pull all this together, a strong product and the dynamics of the market evolving at the pace that it is in the U.S., so the expectations that we will continue growing, that's why we are investing capex, like I mentioned during my presentation.

We mentioned Velo Max, which is an even higher moisture product that we have as part of the pilot that the FDA is running. We welcome the, first of all, that FDA is embracing nicotine pouches as a key category to address Tobacco Harm Reduction in the U.S., because it's the lowest risk profile, if you want. There is no inhalation, there is no tobacco, there is no smell, there is much easier for consumers of cigarettes to convert into a much lower risk profile product.

So they have put in place these pilots. We hope that for the next few months we see our products and we are cautious that other competitors will come with other products as well. And for us, there is no problem with that. But when I look outside the U.S. where everyone is free to compete, the leading brand outside the U.S. is Velo. Like we said, in Europe, our volumes in Velo are 6 times higher than the second-largest competitor. So what we want to see in the U.S. is a level playing field because in a level playing field, we know that we can win. So that's the first question on Velo.

In terms of profitability, we have made a very strong profitability for improvement in profitability when you compare that not long ago back in 2023, we were just reaching break-even in this category, and today we have a 12% category contribution.

Obviously, I always said that this will not be linear year-after-year, because there will be years where we are going to reinvest back in the business at the back of exciting innovations. And 2026 is one of these years, because as I said during my presentation, we have now premium innovation in every single of those categories. So we want to roll out glo Hilo. We want to roll out Velo Shift. We want to carry on rolling out Vuse Ultra. So we are not concerned about stipulating a specific pace of category growth year-on-year, because these will vary over time, but the trend is very clear, the category will continue to grow.

Operator:

Thank you. We'll now take our next question from Faham Baig from UBS. Please go ahead.

Faham Baig, UBS

Good morning, guys. Thank you for taking my question. The first one is on guidance for Full Year '26. You've guided for the lower end of the midterm targets. Could you maybe share factors that could result in the performance, whether in '26 or beyond that, getting you to the middle or even upper half of the range would be helpful? And then the second question is on Heated Tobacco. I guess it was a tough year in 2025 from a share perspective. How do you think about share progressing through 2026, particularly as competition in the category is intensifying?

Tadeu Marroco – Chief Executive

Okay. Thank you, Faham. Look, I want to start with the second one first and then we address the guidance. Yeah, we clearly see areas of improvement in our performance in Heated Products. What we saw throughout '26, is that the below WAP (weighted average price), which is basically where we were present until the launch of glo Hilo later in the year, has been very competitive in some of the key markets. And that's the reason why I have just made the point today that we are coming with a revamped Hyper product that we believe, that together with revamped consumables, will strengthen our position in that particular segment. So we are very encouraged by what we have seen of the performance of this product in initial tests that we have been doing. And we believe that this will support our performance moving forward. And obviously, glo Hilo will complement that because it's the first attempt that we have done, where it 70% of the value of the category sits, which is e AWAP (above weighted average price), the premium part of it. And we are extremely pleased with the performance. We are growing week after week with a level of retention of 50%. And this, complemented by a revamped value-for-money proposition, gives us the confidence that we can reverse this trend and start growing from here.

Now, in terms of the guidance, I think that Javed can explain a bit more about 2026. I just want to call the attention, that after two years of investing, resetting our business, the U.S. business, our innovations pipeline, BAT is ready to go back to the mid-term algorithm, that we have always had in the company -- around a 3% revenue to 5% revenue, leading to a 4% to 6% operating profit, with a kicker around 1% to 2% for EPS.

That's the range of 5 to 8%. Obviously, our targets have incorporated the transactional FX. I always try to make this disclaimer about BAT's target. But the profile of growth of this range will differ now from where we were, I would say, several years ago. Because the New Categories will be even more prominent on that. Out of the 3 to 5%, we have mentioned before, that combustibles, we expect to be delivering around 1% to 2%. And with the U.S. being, in the medium-term, between 0 to 1%, and the rest of the Group, the international part, I would say the other two regions, above 2%.

And in 2025, we have, despite all the difficulties that we faced mainly in the APMEA region, we were able to deliver 1%. And we said that Bangladesh and Australia had an impact of 1% at top line, which otherwise would be high end of this range. So I'm very confident that moving forward we can comfortably be delivering within those ranges. And when you move to New Categories, for the algorithm to work we have to deliver double-digit New Categories. Hasn't been the case in 2025, basically because of the headwind we faced in Vapour. There are a number of reasons for that, but mainly related to the illegal market in the U.S., that now we are seeing signs that the authorities, be it federal or state level, addressing. So we expect, moving forward, to have less of a drag and eventually even a tailwind coming from Vapour, that will be supportive of the category for BAT.

And THP we just spoke about, and we expect to accelerate our growth from now on without offers. And obviously Modern Oral, we have a leading brand now, and we expect to go from strength to strength. So I'm very confident about being able to deliver the double-digit New Category revenue growth, to deliver 1% to 2% on the combustibles side. This will flow through to the 4 to 6% in terms of increasing margins, that is supported by all the productivity savings that we have already mapped out until 2030. And specifically in '26, I would like Javed to comment about.

Javed Iqbal – Interim Chief Financial Officer

Thank you, Tadeu. I think on 2026, specifically if I go region by region, and then we can look at overall. In case of APMEA, as I highlighted, that we expect Bangladesh to be not a big drag, but Australia still remains a meaningful drag which is becoming smaller and smaller every year. So in 2026, Australia will still be a drag but will be less meaningful in '27. Having said that, also, we will continue to invest in the rollout of premium innovations in APMEA as well, as you saw in terms of glo Hyper, so that will be there as well.

The other thing in that area is that in case of AME, we still face headwinds from the illicit environment in Vapour and also the regulation changes in Poland, which happened at the end of the year, which has made the legal Vapour out of the market, which is again a drag for us.

Coming to U.S., you have to keep in mind that comparator from '24 to '25, versus '25 to '26 is very different. We had a very good performance in '25, so the comparator changes. And also, we are assuming for now, stable volume in Vuse in U.S.. So we are expecting that the enforcement level as we've seen through today, will stop the decline, but will keep the volume overall stable.

And lastly, also we highlighted in our pre-close trading update, that we are exiting certain geographies which are not adjusted, but they will have an impact on our numbers in 2026.

So hope this all gives you an idea why the lower end of 2026, but having said that, we are all very proud and confident in the business that we are entering the first year of our mid-term algorithm.

Faham Baig, UBS

Very comprehensive. Thank you both. Appreciate it.

Operator:

Thank you. Our next question is from Rey Wium from Anchor Stockbrokers, please go ahead.

Rey Wium, Anchor Stockbrokers

Good day, Tadeu, Javed, Victoria. I just want to get back to… I mean, it's quite interesting to listen to your optimism around the New Categories. And I just had a quick look at the numbers, obviously Modern Oral is doing exceptionally well. You have the opportunity for Vapour to at least stabilise. And Heated Tobacco, I don't know whether the jury's still out there. But I don't know if you can just talk high level stuff here, to give us an idea which of these categories give you, or makes you the most excited in terms of the future growth in terms of that, I mean, especially now in 2026, we talk of a double-digit revenue growth?

And then just a follow up. Just in Australia, I mean, it's quite interesting because I sit in this market. I mean, the legal market is now down to like three billion sticks or less. Now clearly, I mean, if I look at Japan, I mean, that's basically what Japan will consume in the space of seven days. So I mean, I struggle to understand why do you say it will still be a drag. Is it not at a time that you must consider to exit this market? Yeah, I'm just curious to hear your thoughts around that. Thank you.

Tadeu Marroco – Chief Executive

Okay. Okay. Oh, on the New Categories, obviously Modern Oral is the exciting category out of the three. The pace of growth of Modern Oral around the world is very clear. And even in markets where there is no oral tradition, you take, for example, the UK, that when we launched Velo here four years ago, the incidence of nicotine in oral was zero. And today, it's around 3%, it sporadically can go all the way to 4% in terms of use. And this is happening also in the likes of Poland, it's happening in emerging markets because it's very affordable, like Pakistan that is doing extremely well, South Africa doing extremely well, Kenya. So, there is a massive potential and we are very pleased with the fact that now we have 24 markets already that have passed legislation. The last one has actually been Argentina a few weeks ago. Portugal has just passed legislation as well. So, we see, clearly, a lot of potential in this category, and we are obviously very pleased that we have a leading brand in this category.

In terms of a tobacco heating product, it's a 9 billion revenue category, in which BAT has just below 1 billion. So there is a lot of white space for us, and it has been more and more competitive, but we have now a product that is being present in the value side of the category, if you want, on the Premium side, that has never been the case before. So with glo Hilo, we are tapping a very, very… it has been an untapped subcategory within the category for BAT…and we are extremely excited about this possibility to occupy some of that white space in a category that is still growing, not at the same rate as Modern Oral obviously, but it still grows at mid-single digit or high single digit.

And Vapour is a difficult category, because of lack of enforcement and/or regulation. And that's the reason why it is actually difficult to compete with some of these illegal products, or products that doesn't have concerns in terms of responsible ways of doing Vapour. That's why we came with this campaign, because you see a proliferation of devices with thousands of puffs that have a very different negative risk profile than the ones that we sell. So there is no level playing field. And the reason why we are addressing a premium subcategory within Vapour, with the likes of Vuse Ultra, is exactly our recognition of that. We are not really competing for volume, we are competing for value and offering consumers a responsible way to do Vapour. And obviously the U.S. is the largest Vapour market, so all the attention is to the FDA, that I think that has given some indications now that they understand that the root cause also of the problem is the lack of level playing field. And hopefully we can see some of the pilots that they are doing now in Nicotine Pouches, into Vapour in the future as well.

So that's the New Categories. Australia. Look, Australia, as you know, comes with, since the introduction of plain packaging in 2012, with very misguided and illogical regulations year after year. And increasing excise at much higher than inflation, to a point today that the average price of cigarette legal market in Australia, is the equivalent of £20/£22 whereas the illicit product is around £6. So, as a consequence of that, 65% of the combustibles market now is illegal. They have, in essence, reduced the average price for consumers, and for the first time in many years, we see an uptick of incidence of smokers in Australia. Not just they decimated the tax collection, but also, with this illogical regulation, they are seeing now incentivising consumers to smoke a product that is much cheaper than the legal market. And obviously carrying on with all the criminality, as we have seen in many different markets.

Now, the impact for us is that has always been a very important market for BAT, but like Javed said, we've come to a point it becomes insignificant. So the drag in '26 will not be the same as '25. It's still a drag, but it'll not be the same.

And from there on, if the government carries on doing that, which seems to be heading towards 100% illegality anyway, we don't even need to take it as we should leave, because the direction of travel has been very clear. If you add the Vapour category, that has an incidence of 9% of adult consumers and is 100% illegal today, 85% of nicotine consumption in Australia today is illegal. So it's just a question of a couple of years, unless they decide to do something more reasonable.

Rey Wium, Anchor Stockbrokers

Thank you very much.

Operator

Okay. Our next question is from Pallav Mittal from Barclays. Please go ahead.

Pallav Mittal, Barclays

Good morning. Thanks for taking my questions. So two of them. Firstly, on the U.S. business, clearly your price/mix is pretty strong at 12% plus. Can you help us understand what percentage of your U.S. volume portfolio is right now benefiting from the excise duty drawback, and how much scope does it have to increase in the future given your global business? That's the first one.

And then secondly, appreciate all the commentary on your NGP guidance for 2026, but your low double-digit growth, it still, I mean, seems like you're factoring a pretty sharp normalisation versus what we can see in data, especially on nicotine pouches and the eVapour side of things. So can you just help us understand the moving parts for your low double-digit guidance for '26?

Tadeu Marroco, Chief Executive

Okay. Javed will cover your second question. On the duty drawback, this is a longstanding legislation in the U.S. to incentivise local manufacturing and promote export from the U.S. So obviously what we are doing is exactly that. Reynolds has invested more than 200 million in terms of manufacturing over the last couple of years, we had generated more than 800 jobs, and we increased our purchase of leaf in the U.S. by 65%. And today Reynolds is the number one company in terms of volume of leaf purchase in the U.S. market. So we are not making disclosure specifically about the duty drawback impact, but one datapoint for you to consider, is the fact that our revenue in combustibles would have been positive, independent of the duty drawback.

So it's important to mention that because at the end of the day, when you go back to what I was referring to in terms of the long-term algorithm, we expect the U.S. market, in terms of combustibles, to be declining at rates around 6% to 7% and this should be, given the elasticity that still exists in the market. The possibility for Reynolds to get to a positive revenue around zero to 1%. In the current years, it has been more than that, because the company is doing extremely well in terms of the strength of the portfolio, but also the duty drawback is helping for those, in that sense as well. But independent of the duty drawback, we are positive, and I feel very comfortable with the range that we have set ourselves for our long-term algorithm.

Javed Iqbal, Interim Chief Financial Officer

I think on the overall New Category revenue guidance of low double teens is one thing. Couple of points, one in the U.S., as I explained in my presentation, that we have the negative number for the full year on Vuse. So what we are expecting in the Vuse numbers, to be flattish, because it will require a more meaningful and more stronger enforcement. And given a very complex and long supply chain, even those measures will take time to have a meaningful impact. So even the ITC regulation, which Tadeu was talking about, even it gets passed through, it will be much later in the year when we'll see some meaningful impact.

And having said that, also as I highlighted the regulations, for example, in Poland in Europe, which has put a drag on the Vuse volume, because it has made the whole legal business a negative in that number, so that's not possible to enter that market. And also, the highly competitive environment we see in the BWAP (below weighted average price) segment within the Heated Product portfolio, as we were talking about earlier, that competitors will continue to be there for the short-term. So if you put all these together, that's why our guidance on the low end of the teens. But having said that, we are very confident in midterm, that Velo will lead the charge of New Category revenue growth, being the fastest growing brand in the fastest growing nicotine category globally, including U.S. I will say that given all these points, that's why we have guided on this front at the low teens for now.

Pallav Mittal, Barclays

Thank you.

Operator

Our next question is from Simon Hales from Citi. Please go ahead.

Simon Hales, Citi

Thank you. Morning Tadeu, morning Javed, morning VB. So a couple from me. I wonder if I could just first come back to some of those comments you just made on the U.S. business on a go forward basis. Javed, just back to the point in terms of the Vapour performance and the flat Vapour expectation for 2026, I'm still just trying to square that circle, given you've got pretty strong exit rate momentum through the second half of the year. I appreciate enforcement actions in Vapour aren't a straight upward line, but we're still probably going to annualise at least through the first half some of the building enforcement we saw in 2025, and that should help the Vapour category, one would imagine, or the legal Vapour category in the first half. So are you therefore expecting, as we come into H2 of 2026, to see your boost business now down year-on-year to get you back to that flat guidance for the year.

That's the first point. And then, secondly, on the U.S., Tadeu you talked about 6% to 7% being the normal hopeful run rate of decline on combustibles volumes. Is that something you expect to see in 2026?

And could you also perhaps talk a little bit about what you're doing in discount at the moment, the performance of Doral last year, and your plans on that brand going forward?

Tadeu Marroco, Chief Executive

Yeah, okay.

Javed Iqbal, Interim Chief Financial Offier

So, if I take the first one, so I think one thing which I have to highlight further on the second half performance of 2025 of Vuse in U.S. Other than the enforcement, there is also one item which will not see repetition was the de-listing of competition product in which Vuse gained; So, 63% of those consumers stayed within the closed systems. And in RCS systems, Vuse gained more than their fair share of our category. So, that is one thing which is also boosting Vuse's performance in the second half.

So, I wouldn't be reciprocating that second half into the full year of '26. Full Year of '26 is more focused and will be more dependent upon the level of enforcement we see. And as also highlighted by Tadeu, that although we have seen regulation covering 40% of the legal volume, but level of enforcement varies from state-to-state.

So, not having that one-off of the exit for the competition, of which we gained more than fair share. And enforcement still seems to be early days, so that's why our guidance on the Vuse comment was made by me.

Tadeu Marroco, Chief Executive

Yeah. On the volume side, my comment is more, I would say, a hypothetical situation. It's not a 2026. What's happening in the U.S. market is the following. If you go back to 2020, 54% of the nicotine users were using traditional nicotine products, combustibles, Traditional Oral. You go now to 2025 it’s 34%. So, what's happening is the transition of these consumers to either poly-using or becoming solo users of Smokeless products, either Modern Oral or Vapour products.

So, obviously, the secular decline that was related to ADC and level of incidence reducing over time, around 4%, will not be coming back. That's my point. So, even if you see meaningful enforcement in Vapour in disposables that we know that currently plays a role in terms of the level of decline of cigarettes, even if we see that, even if we see improvement in the macroeconomics in the U.S., it's very hard to imagine the market going back to 4% decline because of the dynamic of the poly-users and solo users in New Categories that I was referring to.

So, my point is that in the long run, with a meaningful enforcement in disposables, with macroeconomics strengthening, between 6% to 7%.

I think that where we see today in the next couple of years in the scenario that we are seeing, I think that the performance in '25, around 7% to 8% is a more reasonable one to assume. So, that's what I would assume.

Now, obviously this is overall market. When you separate from the overall market the deep discount, the deep discount has a very different dynamic. We are seeing more activity there from competitors. And as a consequence, we saw the deep discount growing by 10% in 2024, '25 was even higher than the 7% that they grew in 2024. So, we have been piloting Doral, to your question. We have been always very mindful because, despite the fact that the deeper discount is growing, as opposed to the general market, 95% of the value continues to be outside the deep discount.

So, we are very mindful in terms of testing the product. In this case it's Doral. We did pilots in Louisiana, in West Virginia. And what we are seeing in those pilots is suggesting that we'll be able to expand Doral for other states as well, taking into consideration the source of business, the potential downtrading of our own brands. We are doing that with the value in mind. We are not doing that for the sake of market share. We want to expand Doral in the states that make sense from the value point of view.

Simon Hales, Citi

Got it. Thanks very much.

Operator

Our next question is from Richard Felton from Goldman Sachs. Please go ahead.

Richard Felton, Goldman Sachs

Thank you. Good morning. Thanks for taking my questions. Two, please. The first one is on Vapour. So, look, great news that the U.S. is starting to take some proper enforcement action against illicit vapour, but your comments point to a challenging environment in markets ex-U.S. So, thinking about those ex-U.S. markets, are you seeing any shifts in appetite from governments or regulators to start to enforce against that illicit segment a little bit more stringently or does that remain very challenging? Any comments on some of your top Vapour markets ex-U.S. on that topic would be very helpful.

And then, the second one. Sorry to come back on the duty drawback question. I appreciate you don't want to give us the exact numbers for 2025, but just from a high-level perspective, thinking about duty drawback into 2026, is the tailwind going to be more or less than it was in 2025, a similar level? Any high-level comments just to help us triangulate on that would be very helpful. Thank you.

Tadeu Marroco, Chief Executive

Okay, Richard. Look, Vapour, I don't think that there is one size fits all here. We know, based on our own experience, that when we have geographies where we have retail license, we have proper regulation and proper enforcement, I would say, for example, France is one of the cases, you just can sell vapours in tobacconist stores. And if you are caught selling, for example, disposables now, you have a massive fine in euros, and this helps with the discipline in the market.

And in the UK, for example, despite the fact that we have been asking for a retail license and we haven't seen the movement in that direction, there is a tobacco vapour bill being discussed as we speak, and hopefully, they will address that. But the attempt to ban disposables has failed because the manufacturers that are not responsible, they try to circumvent in the case of these regulations. So, 50% of the market is illegal today in

Vapour, and this is a demonstration of how difficult the governments find to either regulate, but more important, to enforce regulation in some markets.

We have, as much as we can, and we have promoted this "Vapour Deserves Better" campaign, we have been very vocal about what are the measures that government should be taking into consideration to try to discipline that. And these, with no surprise, you'll see us talking about retail license, hefty fines if they got caught, a more stringent discussion in terms of age verification when you buy the product and a negative list to avoid things like sucralose in the liquids to sweeten the liquid.

So, in our webcast and all that, there is a plenty of... But there is still a lot of work to be done on that. And as a consequence, we are trying to, as part of our resource allocation, return on investment mindset, the quality growth, which is not just about top line, but also bottom line, we have been focused on more important markets, the likes of France, like I said, the likes of Germany, the likes of Italy, which is standing out from others. And then, pulling back in markets like Malaysia, for example, and South Korea and so on and so forth. So, that's the situation on Vapour outside the U.S.

In terms of duty drawback. Look, I'm not giving guidance specifically for the drawback. We see that the benefits that we are generating for the economy, for example, is the driver behind. As much as we can start growing employment and growing the activities in the farmers' domestic in the U.S., we carry on. Obviously, this is not forever. This will be, like you suggest, a peak. And in the meantime, we are strengthening our portfolio in combustibles. We are seeing the overall market decline being more supportive, which is also important for the future.

And more important is us being able to create a strong position outside combustibles, because I understand the concern on the combustibles side, but overall, nicotine in the U.S. is growing. It's growing value and it's growing volume. So, despite the fact that you see consistent decline in cigarettes, you see massive increase in the Modern Oral space. You see strong increases still in Vapour, unfortunately on the illegal side, but it's very encouraging, the science that the new administration is giving to address that.

Because untapping this potential there, there is not much concern about the direction of the cigarette because what we want, in essence, is exactly to migrate smokers out of cigarette towards those products, but what is needed is a level-playing field.

Operator

Thank you. We will now go to our next question from Bastien Agaud from Bank of America.

Bastien Agaud, Bank of America

Good morning. Bastien from Bank of America. Thank you for taking my question. I just have a quick one on the buyback. Your net debt is close to your target 2.5x and your free cash flow in '25 was quite strong. So, my question is, regarding the buyback, £1.3 billion for 2026, what kind of margin do you have to potentially increase it at some point or another during the year? I understand that your debt is approximately 70% in dollar, so could be quite volatile on that, but just to understand the moving parts on your buyback for full year '26? Thank you.

Javed Iqbal, Interim Chief Financial Officer

Bastien, thank you very much. We started a sustainable share buyback program in 2024, and we started it with £700 million, and now we are at £1.3 billion with the increase of £200 million for 2026. We remain our focus on cash and also deleverage. We have to enter into our range of 2 to 2.5x. And also, we want to make sure that we continue to deliver additional incremental dividend, in the sterling terms, and continue our 25 years plus record on that front and continue a sustainable share buyback. What we want to ensure is to create more optionality for capital allocation in the medium- to long-term for the business. So, for now, I'm very comfortable with the increase we have done of £200 million from £1.1 to £1.3 for 2026, and we keep on focusing of generating cash to bring us back into our range of 2 to 2.5x and continue a sustainable buyback.

Bastien Agaud, Bank of America

Thank you very much.

Javed Iqbal, Interim Chief Financial Officer

Yeah.

Operator

Thank you. Our next question is from Damian McNeela from Deutsche Numis. Please go ahead.

Damian McNeela, Deutshe Numis

Hi, morning, everybody. Thanks for taking the questions. The first question is just on U.S. combustibles, and particularly on pricing. I was wondering if you could provide any more granularity on the pricing within the sub-segments that you operate in, and what the outlook for '26 might be for pricing given the very strong year last year? And then, the second question is on capex. You've indicated a step-up this year. I was just wondering whether that level of capex is what we should be expecting for outer years past 2026.

Tadeu Marroco, Chief Executive

Thank you, Damian. Look, on the capex side, we are increasing at the back of investments, mainly on the Modern Oral space. Most of the capex today is being reverted back to the New Categories and giving the space for us to continue growing. We don't have huge expectations to be much beyond the level that is currently, and this is suiting us well, because at that level, we still can be very close to the 100% of operating conversion. It's not a limitation, but it's just a fact that with this level of capex address the business needs at the same time, which puts us in a strong position to continue having high levels of operating cash conversion, which is very helpful for the financial flexibility and the capital allocation that Javed was referring to.

On the U.S. combustibles, look, I cannot be talking about pricing. And what I can say to you is that the price elasticity is still very benign in the U.S. when you compare the price of cigarette vis-a-vis the average household income. And obviously, there is a dynamic there because of the specific tax that when we increase the price of a pack of cigarettes, the manufacturer has a higher benefit than the consumer perceives as a price increase, which is also helpful.

But what Reynolds has been doing is laddering some of our brands. We did that very successfully with Newport. We have launched Pall Mall Select as well, which is another laddering. And we have now Doral, like I said, in pilot phase that we probably will expect to roll out to more states, but I cannot speculate with you about future price.

Victoria Buxton – Group Head of Investor Relations

Thank you very much, everybody, for your questions.

I'm afraid that's all we have time for today. So, if you put a question into the web, then the IR team will be delighted to answer your question as soon as we can. I'd now like to hand back to Tadeu for closing remarks.

Slide 39 – Closing comments

Tadeu Marroco – Chief Executive

Thank you all for listening today and for your questions.

To close, I'm confident we have the right building blocks in place to deliver our mid-term algorithm, supported by delivering 2025 results at the top end of guidance.

We will continue to reward our shareholders through strong cash returns, including our progressive dividend and sustainable share buy-back... and enabling us to deliver long-term growth and value creation.

Thank you again for joining us. I look forward to seeing many of you at the CAGNY conference next week, where we are presenting on 18th February.

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

[†] Products sold in the U.S., including Vuse, Velo, Grizzly, Kodiak, and Camel Snus, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.