2026 Interim Results

Presentation Webcast

Transcript

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Tadeu Marroco, Chief Executive

Good morning everyone. I am delighted to welcome you to our 2026 interim 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 building.

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 our transformation momentum ...

Slide 5

Starting with some highlights from H1...

Smokeless now represents 19.8% of Group revenue, up 160 basis points versus last year.

We added 4.1 million Smokeless consumers over the last 12 months, taking the total to 35 million.

This progress is mainly driven by Modern Oral industry growth, where the strength of the Velo brand continues to resonate strongly with consumers.

Our first-half results were in line with expectations, supported by:

- Strong multi-category delivery in the U.S.;

- Excellent Velo momentum across all three regions; and

- A resilient combustibles performance in the U.S. and AME.

Our disciplined focus on Quality Growth continues to improve returns through more targeted investment, with New Category contribution up 55% at constant rates.

As previously guided, we expect adjusted profit from operations to accelerate in H2, driven by improvements in AME and APMEA.

Our second-half weighting will also benefit from the phasing of Fit2Win savings.

Finally, we continued to generate strong cash returns.

We expect to be within our 2 to 2.5 times target leverage corridor by year-end, while continuing to reward our shareholders with our progressive dividend and 1.3 billion pound share buyback in 2026.

Slide 6

I am encouraged by the momentum we are building as we transform BAT.

New Categories are becoming an increasingly meaningful contributor to Group performance, reinforcing our confidence in sustainable delivery moving forward.

After a period of investment and transition, returning to our algorithm for the full year is an important milestone.

It reflects the progress we have made in reshaping the business and provides a stronger foundation for long-term value creation.
With that, I will hand over to Javed, who will take you through our financial 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 in line with expectations, on a constant currency basis.

This performance was mainly driven by strong U.S. multi-category delivery and the acceleration in New Category growth.

Our reported results reflect some adjusting items, the majority of which are non-cash, including:

- Approximately 800 million pounds, primarily reflecting the annual amortisation of our U.S. trademarks;

- A 370 million pound one-off adjustment related to Fit2Win, of which around 230 million is non-cash; and

- a 149 million pound credit following the settlement of historical litigation.

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

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

Slide 9

We continued to build momentum in the first half, reinforcing our confidence in delivering our full-year guidance.

- Group revenue increased by 2.9%.

- Adjusted gross profit rose 3.8%.

- Adjusted profit from operations
grew 3.5%.

- And adjusted diluted EPS was up 7.9%.

Slide 10

Let's now turn to New Categories.

Revenue growth accelerated to 18%, driven by another outstanding performance from Modern Oral, which was up 66%.

Vapour revenue increased 5.3%, driven by the U.S., where we returned to double-digit volume and revenue growth.

This was partly offset by a decline in Heated Products, with glo revenue down nearly 12%, impacted by inventory movements and competitive intensity in the value segment.

We continue to deliver Quality Growth, with gross profit up over 120 million pounds and category contribution up 55% reaching 269 million pounds.

This reflects our disciplined approach to investment and increasing scale benefits.

We remain committed to investing behind profitable growth. In Vapour and Heated Products specifically, we are becoming increasingly selective about where we deploy our resources, which Tadeu will talk more about later.

Slide 11

Now, turning to combustibles.

Combustibles volume was down 4.7%, with growth in Pakistan and Türkiye more than offset by continued industry volume decline in other key markets, and the impact of market exits in Cuba and Mozambique.

Revenue grew 2.1%, driven by robust price/mix of 6.8%.

Growth in the U.S. and AME more than offset a slower than expected recovery in APMEA, as fiscal and regulatory pressures persist.

Adjusted gross profit and category contribution both grew ahead of revenue, driven by:

- a strong performance in the U.S.;
- positive price/mix; and
- our continued focus on cost optimisation.

Combustibles remain a powerful value engine for the Group, delivering robust returns and continuing to fund our transformation.

Our resilient performance reflects the breadth of our global footprint, the strength of our portfolio and disciplined execution.

Slide 12

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

We delivered a strong multi-category performance, driving total revenue up 8.5% and adjusted operating profit up 10.1%.

New Category revenue increased by nearly 60%, driven by the continued success of Velo Plus, which grew more than 200%, and Vuse which returned to double-digit volume and revenue growth.

In combustibles, revenue grew 5%, driven by robust price/mix, including the benefit of excise duty drawback, and positive trade inventory movements.

Value share declined by 40 basis points and volume share was down 80 basis points, reflecting continued industry growth in the deep discount segment and heightened competitive activity since Q4 last year.

We have actively responded to this trend, investing behind our portfolio and further strengthening our commercial execution. As a result, we have held our volume share since January.

Looking into the second half, we expect an acceleration of investment to support the launch of Velo Max and Vuse flavour pods... as well as behind our combustibles portfolio in a highly dynamic market. Tadeu will talk about this in more detail later.

In addition, we expect our strong H1 growth to moderate in H2, as positive inventory movements do not repeat, and we lap a stronger comparator.

Slide 13

In AME, total revenue grew 0.9%, with combustibles up 2.5% and New Categories up 1.9%. This was partially offset by lower direct leaf sales, reflecting our continued focus on higher-return, more profitable areas.

Combustibles revenue was driven by strong delivery in Brazil, Türkiye and Mexico, and robust price/mix. This was partially offset by our exit from Cuba and increased competitive pressures in Germany and Romania, where we have taken targeted actions to strengthen our portfolio.

In New Categories, Modern Oral revenue was up 22%, driven by the strength of our portfolio across both established oral markets in Scandinavia, and newer growth markets, including the UK and Poland, which now account for around 50% of our Modern Oral revenue in the region.

Heated Products revenue declined by nearly 11%. Growth in Romania and Portugal was more than offset by lower revenue in Italy and Poland, due to heightened competitive activity in the value segment.

Looking ahead, we expect to strengthen our value proposition with the next generation Hyper Pro Plus in the second half of the year. We are also encouraged by the continued momentum of glo Hilo, which is performing well in the premium segment.

Vapour revenue declined 14%, mostly impacted by regulatory changes in Poland, as we continue to focus our investment on larger industry value pools.

Adjusted operating profit increased 1.1% supported by continued resilience in combustibles, and Quality Growth in Velo and Vuse. This was partially offset by investments in Heated Products behind our innovation roll-outs.

We expect performance to accelerate in H2, driven by our targeted commercial actions and the benefit of the roll-out of New Category innovations.

Slide 14

Turning to APMEA where our recovery has been slower than expected… revenue was down 6.3% primarily driven by combustibles.

While we continued to drive growth in key markets including Pakistan and Indonesia, this was more than offset by:

- the challenging regulatory environment and the impact of illicit volume in Bangladesh and Australia, alongside

- The timing of inventory movements in Vietnam.

Modern Oral revenue increased by 43%, driven by our first mover advantage and category leadership across emerging growth markets. These include Japan, Pakistan, South Africa, and Global Travel Retail, highlighting the increasing opportunity for the category and for Velo.

Heated Products revenue declined 13%, impacted by material inventory movements and heightened competitive intensity in the value segment in Japan.

Encouragingly, glo Hilo continues to build momentum in the premium segment, and with Hyper Pro Plus launching in Japan in Q3, we expect an improving share performance in H2.

Vapour revenue declined 28%, reflecting strategic market exits and more selective resource allocation.

Adjusted operating profit declined 16.5% mainly due to the headwinds in key combustibles markets.

Looking ahead, we expect further sequential performance recovery in H2, supported by:

- our commercial actions and investment in both combustibles and New Categories, and
- a softer comparator in Australia.

Slide 15

Turning now to our Group operating margin, which was up 30 basis points to 43.7%.

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

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

Slide 16

We are making good progress with Fit2Win, our transformation programme to build a leaner, faster and more data-driven BAT.

We have identified a further 100 million pounds of optimisation savings, resulting in an incremental, one-off, 100 million pounds cash investment to support delivery.

In addition, to further drive New Category growth, we have also completed a comprehensive review of our manufacturing assets and machinery.

Through this, we have identified opportunities to upgrade to more efficient, next-generation technologies and state of the art machinery, to support future growth and productivity and to accelerate our transformation.

As a result, we have recognised a non-cash charge of nearly 230 million pounds in the first half.

Altogether, we now expect 700 million pounds of annualised savings by 2028, with 500 million pounds to be delivered by 2027.

Total one-off costs are now 950 million pounds, with 840 million to be treated as adjusting.

We continue to expect the majority of costs to be incurred this year, with the balance in 2027.

Slide 17

Bringing it all together...

Earnings per share increased by 7.9%, as growth in operating profit was supported by 4.4% growth from earnings kickers.

This outperformance was primarily driven by lower net finance costs, reflecting repayment of debt with proceeds from the partial disposal of our ITC stake in May last year; and higher operating cash conversion in H1.

Looking ahead to the full year, we now expect net finance costs to be around 1.65 billion pounds with an underlying tax rate between 24 and 25%.

As a result, we have upgraded our full-year EPS guidance, with earnings kickers expected to moderate as we annualise the benefit of lower debt levels.

Slide 18

Strong cash generation continues to enhance our financial flexibility and support disciplined capital allocation.

We remain on track to be within our 2 to 2.5 times leverage target range by year-end, and to deliver more than 50 billion pounds of free cash flow by 2030.

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 19

To summarise, H1 was in line with expectations and we are on track to return to our mid-term algorithm for the full year, with profit second-half weighted.

Key drivers for H2 include:

- Mid-teens New Category revenue growth led by Velo and Vuse, driving a further improvement in New Category contribution;

- An acceleration in performance in AME;

- Further sequential recovery in APMEA; and

- Strong H1 U.S. growth moderating, due to increased investment, lapping a stronger comparator and as positive inventory movements do not repeat.

- We expect H2 performance to be further supported by the positive phasing of Fit2Win benefits.

As previously guided, we expect revenue and operating profit to be at the lower end of this range for the full year… absorbing around a 1% transactional FX headwind, and reflecting active investment choices, including:

- the roll-out of Velo Max and Vuse flavours in the U.S.;

- Scaling glo Hilo and Hyper Pro Plus launches;

- as well as increased combustibles investment in the U.S. and other key markets.

And finally, we now expect full-year EPS growth to be towards the middle of our 5 to 8% range.

Thank you and with that, I'll hand back to Tadeu.

Tadeu Marroco, Chief Executive

Slide 20

Thank you, Javed.

Slide 21

Looking ahead, I am encouraged by the momentum we are building as we return to our algorithm and continue to transform BAT.

We are entering the next phase of our journey from a position of strength:

- with accelerating financial delivery,

- increasing New Category profitability, and

- a clear pathway to long-term growth and value creation.

With that context, I want to share more detail on our progress looking at the topics we get asked about most by you, our investors.

Slide 22

Starting with the sustainability of our multi-category delivery in the U.S. …

Across the market, adult nicotine consumer behaviour is changing in a significant way.

BAT is fully aligned to where these consumers are heading, with our unique multi-category portfolio of No.1 or No.2 share positions across all categories.

As a result, we are now the fastest growing company in total nicotine.

Our total nicotine volume share increased by 110 basis points year to date, fuelled by New Categories

- With Velo driving around 90% share of Modern Oral value growth

- And Vuse delivering over 100% share of Vapour value growth.

My message here is clear: we believe we are best-positioned to win in total nicotine, and continue to capture value in the world's largest nicotine value pool.

I will now take you through the U.S. by category.

Slide 23

Starting with combustibles, where we continue to balance disciplined investment with sustainable value creation.

Industry volume continued to improve in the first half, declining 4.9% on a sales to retail basis.

This was supported by:

- moderating solus consumption decline trends;

- slowing outflow to illicit Vapour, supported by regulatory and enforcement actions; and

- the expansion of deep discount into tracked channels, which we expect the industry to lap in the second half.

Our focus remains on driving value and share from our combustibles business... and we continued to deliver a strong financial performance in H1, as Javed highlighted.

Slide 24

Against this backdrop, we have seen heightened competitive activity from Q4 last year.

We have already taken actions to further sharpen our portfolio management, strengthen our route to market, and leverage digital revenue growth management capabilities.

In addition, we have been actively investing to strengthen our portfolio and we are starting to see encouraging results.

Targeted investments have been supporting Newport in Premium, and we have also been strengthening Camel.

Together, Lucky Strike and Pall Mall Select continued to drive both volume and value share gains in Branded Value, which combined with expanding our Doral brand coverage to five states, is strengthening our presence and competitiveness at the low end of the market.

As a result, we have held our volume share since January and we will continue to actively invest behind our portfolio in the second half.

Slide 25

Second, I am often asked about the regulatory and enforcement landscape in the U.S.

I am pleased that we are starting to see recent actions having an impact on irresponsible illicit operators, while also providing responsible legal manufacturers a pathway to bringing scientifically backed products to market.

We are now seeing multiple government measures beginning to address the longstanding imbalance between the legal market and illicit operators:

- First, around half of Vapour industry volume is now covered by state directory and enforcement frameworks.

- Second, more than 18 million unauthorised Vapour products have been seized, through federal cross-agency collaboration.

- Third, the FDA is taking action to improve regulatory compliance for foreign manufacturers.

- And finally, Attorney Generals continue to increase pressure on illicit Vapour sales channels and payment providers.

Importantly, these actions have supported the legal Vapour industry's return to growth in H1.

We are also encouraged by the FDA's new prioritisation guidance, which supports a pathway for both Vapour flavours and Modern Oral innovation.

Taken together, these developments support a more level playing field.

Slide 26

In U.S. Vapour, Vuse continues to strengthen its leadership position.

We extended value share to a record 55.9% in the first half and now hold more than double the share of our nearest competitor.

Building on this leadership... we will begin a phased roll-out of new adult-focused Vuse flavours, broadening consumer choice and leveling the competitive playing field, starting in Q3, with distribution to approximately

25,000 outlets.

We will execute this expansion in a disciplined manner, upholding our high standards of product quality, retailer compliance and underage access prevention.

Distribution will be carefully targeted, as we work with retailers to secure their commitment to adult only sales supporting category sustainability.

Altogether, this gives us confidence in Vuse's ability to sustain growth and further strengthen its competitive advantage in the world's largest Vapour market.

Slide 27

Third, I am often asked about the growth opportunity ahead in Modern Oral globally.

In the U.S., I am excited about expanding our Velo portfolio in the rapidly growing market.

Velo Plus continues to deliver an outstanding performance, with our overall Modern Oral volume share now 31% and value share nearly 26%.

In addition, we are capturing around 90% of category value growth, demonstrating both the strength of the product and brand, together with the effectiveness of our commercial execution.

Building on this success, we are expanding the Velo portfolio to capture a broader range of adult consumer preferences, including launching some limited edition Velo Plus variants.

And starting in Q3, we will launch Velo Max, a higher moisture product and our latest innovation in the U.S. This will further expand our offer across two new strengths and four new flavours, complementing our existing portfolio and providing an incremental lever of growth.

Slide 28

Velo is the clear global number one brand in Modern Oral, the fastest growing category, with the lowest risk[*†] profile.

We continue to expand Velo's footprint as regulatory clarity improves, with 32 markets having now adopted category regulation, more than double the number versus 2024.

Our clear leadership position continues to strengthen, underpinned by strong growth across all three regions and the successful execution of our premiumisation and innovation strategy.

Our scale advantage continues to widen…

In the first half, BAT shipped 7.9 billion pouches, and across our top markets our Modern Oral volume share increased by over 8 percentage points to reach 39%.

As the category continues to grow at pace, we believe our superior portfolio supported by:

- continuous innovation;

- scale;

- brand strength; and

- regulatory capabilities… will become increasingly important competitive advantages.

Slide 29

In AME, BAT is clear category leader with 63% volume share across top markets, making us nearly seven times larger than our nearest competitor.

This leadership position is underpinned by our superior brand equity scores, 40% higher than our closest competitor in Europe, supporting our premium brand positioning, and reflected in our 68.5% value share.

We continue to drive strong volume-led revenue growth, and importantly this growth is becoming increasingly broad-based.

Around 50% of our revenue comes from outside the Nordics, where the category continues to develop with growing incidence and consumption, supported by:

- expanded distribution,

- growing category adoption

- and the strength of the Velo brand.

Innovation remains a key differentiator. Through Velo Shift, we are extending our premium positioning. Progress in Sweden and Switzerland is encouraging, with Shift capturing 1% of value share in Sweden and 1.5% in Switzerland within a few months of launch.

Altogether, our strong momentum gives us confidence in our ability to continue driving sustainable profitable growth and value creation in Modern Oral.

Slide 30

Fourth, I am asked about our key drivers of performance improvement in Heated Products.

We are resetting glo's performance with a sharper, more disciplined approach.

Industry volume growth moderated further in the first half, reflecting excise-driven disruption in Japan and continued consumer poly-usage** across Vapour and, increasingly, Modern Oral globally.

At the same time, competitive intensity has stepped up.

Against this backdrop, we are focusing our investment where we see the strongest consumer opportunity and the best return potential, in what remains a significant 9 billion pound value pool.

We are scaling glo Hilo to build premium growth, and strengthening our value proposition with Hyper Pro+. In addition we are concentrating resources behind priority markets in a more selective way.

Through this, our focus is clear… reset our performance and rebuild share momentum in H2 through innovation-led growth and disciplined execution.

Slide 31

glo Hilo is beginning to demonstrate the benefits of our premiumisation strategy.

Launched across nine targeted markets covering around 70% of industry volume, this provides a strong platform for future scale, with around half of consumers new to the glo platform.

In addition, we are strengthening glo's brand equity as we establish our presence in the premium segment.

This is translating into tangible commercial progress, with volume share increasing across key markets and particularly strong momentum in Poland.

We continue to focus on scaling glo Hilo through generating trial, targeting consumers of premium combustibles and Heated Products, while building awareness to unlock further growth.

Slide 32

And finally… bringing it all together…

As we build on our momentum, we see a clear pathway to improved growth in 2027.

Our delivery will be supported by four key drivers:

- First, continued strong New Category revenue growth, led by continued momentum in Modern Oral, U.S.-led Vapour delivery and a more targeted approach in Heated Products.

- Second, consistent combustibles delivery, supported by...
Further recovery in APMEA, and targeted investment to sustainably drive combustibles value and share globally.

- Third, continued strong profit conversion, reflecting improving New Category returns and ongoing cost savings.

- And fourth, EPS accretion from share buy-backs, lower financing costs, and continued strong cash generation.

Slide 33

To conclude...

By focusing investment on our highest-return opportunities, we are delivering Quality Growth through our multi-category portfolio, supported by:

- sharper execution;

- enhanced capabilities; and

- disciplined resource allocation.

Through this, we are driving higher returns and building a more resilient business.

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

I am confident in our strategy, our execution, and that BAT is well-positioned to deliver long-term value for our shareholders.

Slide 34

Before we move to Q&A, let me leave you with some of the key themes shaping BAT's next phase of growth and value creation.

We look forward to sharing more at our Capital Markets Day in September.

Slide 35

Thank you for listening.

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

[Q&A SESSION COMMENCES]

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.

Operator

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

Andrei Andon-Ionita, Jefferies

Hi, good morning. Tadeu, Javed and Victoria and thank you very much for taking my questions. Two for me, please. Firstly, on US e-vapour. Do you see the illicit enforcement tailwind continuing into early H2? And also for the launch of Vuse Ultra in H2, could you give us a bit more colour as to what we should expect in terms of number of outlets targeted and the types of flavours that we should expect to see on the market? And then on US Combustibles, you registered plus 5% top-line growth in H1, significantly ahead of the US Combustibles framework of value flat to plus 1% growth. How should we think, in the context of this H1 performance, about the US combustibles algo for the full year '26? Thank you very much.

Tadeu Marroco, Chief Executive

Okay. Thank you, Andre, for the question.

I'll start with the Combustible numbers. Yeah, you rightly point out that the 5% performance in H1 is well ahead of what the algorithm would suggest.

We highlighted the fact that we had some trade movements that have been beneficial in H1 that will be unwinding in H2. I will tell you that this equates for something close to 2% of the 5%. So underlying performance actually is more of a 3%. Clearly, we have momentum in the H1. Duty drawback is part of the 3%, but it's not a major part of it. Most of the performance is organic performance, let's put it that way.

Obviously, as we highlighted in the presentation, we intend to invest -- continue to invest behind our portfolio as we progress in the second half of the year. We are clearly seeing the dynamic of the low discount segment in the US continue to grow, and we will try to become more competitive in that space as well. So you -- I would expect to see a more moderate performance in the second half of the year, particularly in combustibles in the US, that should reflect in a number that will be much closer to the algorithm, maybe a bit -- still higher than the zero to one that we have, but not as high as we've seen in the first half of the year. So that's the combustibles part.

On the Vapour part … It's very encouraging. What we are seeing from the states enforcement it's 50%. It's the first time that we saw the legal Vapour market coming back on a very modest base, but it's still we have seen in the last few years a decline of legal markets year after year. It's hard to predict exactly what happens next. I would suggest with all the initiatives that I highlighted during the presentation that we could expect to see at least a similar type of environment. I don't think that will be, I would say, significant. I'm more encouraged by the prioritisation guidance from the FDA because these allow the legal American manufacturers to offer substantiated, high-quality products for adult nicotine smokers in the US, and this translates into our ability to bring back flavours in the market, and having a more level-playing field because you cannot forget the fact that from one side, there is an element of enforcement that is important and there is clearly, mainly from the state level, an uptick on enforcement levels, but the root cause of illegality is not just about a lack of enforcement, it's about a lack of level-playing field. And having a higher-level playing field will be also very important. So I would expect to continue to see some more traction from the legal Vapour market.

In terms of your question on –

Javed Iqbal, Interim Chief Financial Officer

Flavours and how we roll out selectively…

Tadeu Marroco, Chief Executive

Yeah, how we roll out. We mentioned that. That will be basically in two-phases. We are -- in Q3 will be reaching out 25,000 outlets. And why we are doing that way? Because we have been very thoughtful in the way that we are rolling out flavours back in the markets. We want to make sure that retailers do the ID scan before they sell the products, make sure that we have no youth accessing these products. There is a commitment and compliance methodology that we have put in place.

And that's the reason we are very thoughtful in the way that we are rolling these out. So the idea is to go in Q3 with 25,000, in Q4 there is another round of 25,000, but we will be building from there. Okay?

Andrei Andon-Ionita, Jefferies

Thank you.

Operator:

Thank you. The next question is from Faham Baig from UBS. Please go ahead.

Faham Baig, UBS

Good morning, team. Thank you for taking my questions as well. A couple from me as well. Starting with nicotine pouches in the US. Could you maybe help us with the speed of launching Velo Max in terms of the distribution stores, as well as the likely economics compared to Velo Plus? And of course, you've now seen competition launching their own improved versions of nicotine pouch products. How have you seen this impacting competitive and category dynamics thus far?

The second question is on full-year '26 guidance. Maybe if you could just help elaborate on some of the moving parts that you expect to see in the second half in terms of how the 2.9% organic sales growth develops, what could maybe see it do better, what could maybe see it do worse? And what are the key items that you're going to be monitoring?

Tadeu Marroco – Chief Executive

Okay, Faham. Look, on the nicotine pouches, we are -- well, we have a very well-established network from Velo Plus in the US. We'll be launching Velo Max in that -- and it's just a question of the normal time that takes to distribute in a continental country like the US. So this will be, probably faster than what took us to do in terms of Velo Plus because we have now a well-established network, that was not necessarily the case when we first introduced Velo Plus. But takes some time to get to where we are with Velo Plus. But the idea is to use Velo Max as a complement to Velo Plus. And commercially speaking, we will be considering our competitive position, obviously and we want to make the product as competitive a product, giving the chance for consumers to try the product. We believe that is an even enhanced product like I said, has a higher moisture and different strengths, and not necessarily it's a very different is -- it will be a -- I think that we'll be addressing some consumer needs that not necessarily Velo Plus is currently positioned for when we think about, for example, higher levels of strength and obviously also different flavours. That's the reason why we say that distinct flavours will complement the portfolio. We feel very, very, I would -- we are obviously are very, very supportive of Velo, very good about the product that we have in the market. It's a competitive market, so obviously, there is no doubt that will become more competitive.

We see the strength of Velo Plus supporting all these new launches from competition. And I do believe that there will be, still a – it will still be a very strong brand. We are now leaders in 11 states in the US, and we have a retention rate of 70%. This hasn't changed. All the growth of the category basically, in the first half, is coming from Velo Plus. Independent of the launches that we have seen so far, I do believe that we have all it takes with the capabilities we have built, and the product that we have, and now complemented by Velo Max, all the conditions to support the position that we have in the market.

So in terms of the building blocks for the second half of the year, and obviously APMEA, we expect to be better performance in the second half than in the first half. It's clearly a recovery story. H1 2026 for APMEA was already better than the H2 2025. H2 2026 will be better than H1 2026 because we will be lapping a more soft comparator, if you want, in places like Australia, for example, if you remember well, they implemented a very draconian regulation that accelerated exponentially the illicit trade in Australia in the second half of last year. We'll be lapping that, so this will be more positive. So clearly, there will be a driver for the second-half, and that's why we say that second-half weighted mainly because of the performance in APMEA. AME, we have been investing heavily behind mainly combustibles and HP, and we expect also to have some improvement in the second-half. And in the US, we just spoke about the US. So I don't expect the 5% to carry on in Combustibles for the rest of the year, and because of the investments we need to do in the portfolio of combustibles. And all-in all, that's the reason why I expect a more positive second half overall for the Group and leading to a full year in terms of top-line in the low-end of our range. You want to add something?

Javed Iqbal, Interim Chief Financial Officer

I think similarly, the same will be the case for the building blocks for the APFO line as well. As we guided that we see a very strong performance in the US, but we will see a more strong performance from AME and APMEA versus H1 and slightly less performance in US. So if you add those all both together, then we are again at the lower-end of our algorithm for the full year, and that is the first time we are entering the algorithm. And two, as I highlighted earlier, that EPS guidance, we will see the overall impacts slow down over the full-year, but we will see strong kickers. That is why we have guided on the upgrade of our EPS guidance towards the middle of the range.

Tadeu Marroco, Chief Executive

Just on the point, I want to complement on the - because I received some questions about the low end of the range. We are here thinking about the long-term sustainability of the algorithm And we are doing the right investments for the business, for the sustainable growth of the business. We have to invest in combustibles in the US, in some other key markets as well. We have to invest in this excellent performance that we have in Modern Oral across the world. We are resetting our HP business, which also requires investments with the launch of glo Hilo. So -- and we obviously have an opportunity in Vapour in the US that we haven't seen in many years. So we are doing the right things for the business for the long run. And as we always said, this is a year to go back to the algorithm and reposition in the low end to create for us the possibility to make the right investments to make this a sustainable story moving forward, and I'm very confident that will be the case.

Faham Baig, UBS

Thank you, Javed and Tadeu.

Operator:

Our next question is from David Roux from Morgan Stanley. Please go ahead.

David Roux, Morgan Stanley

Thanks very much. Morning, Tadeu and Javed. My first question is just on Combustibles. At the trading updates in June, I think the business sort of downgraded its expectation for the global cigarette industry volumes from -2% to -2.5%. I think at the time you noted this was predominantly driven by Bangladesh.

It now seems the business has lowered its assumption again to now -3%. And what is driving this latest sort of reduction in the outlook for cigarette volumes for the industry? Has Bangladesh deteriorated further or are you now seeing broader weakness across other markets?

And then my second question is just on Velo in the US. I guess it's a two-part question. But if we take a step back, I mean, following up, following the rollouts of Velo Max through the rest of this year, how many SKUs across strengths and flavours do you expect to have across the total Velo platform by the end of this year versus, say, where we are today?

And then the second part of this is your key competitor in the US on nicotine pouches recently received a Modified Grant Order to market using a reduced harm claim. Do you think this Modified Grant Order really moves the needle in terms of marketing, and is this something that you'll be pursuing for Velo? Thank you.

Tadeu Marroco, Chief Executive

Okay. So let's address the first, the Combustibles question. The 2.5% to 3% is basically Brazil driven. We had a massive excise shock in Brazil. The prices come into place on 1st of August. This is really a meaningful price increase excise driven and obviously, this will have implications in the size of the market, and it's a big market like Bangladesh is also a big market, but it's basically Brazil driven.

On Velo, with the, we have already three strengths in Velo Plus. We have another two now strengths. So we're going to have a total of five strengths in Velo and obviously, this is the position we are today. What encourages us in terms of this prioritisation guidance from the FDA is that we will be able with more certainty to bring more innovative products to the market in due time.

So which hasn't been really the case for many, many years. You'll note that we have been filing PMTAs and being there for a long, long time, and this is about to change with the new guidance. So for the time being, we are going to be with the launch of Velo Max with five different strengths, with the Velo family moving from as it stands today. In terms of your comments, on the questions on...

Victoria Buxton, Group Head of Investor Relations

PMTA

Tadeu Marroco, Chief Executive

Yeah, first of all, I think that MRTPA for Modern Oral is welcome as a category. I don't think that there is any major commercial benefit for any particular, I would say, SKU or product in the market. We do have in our applications for Velo MRTPA applications as well. So we might be in a position to receive one of those in due time. But I it's less about the commercial opportunity in the market, but more about what it means for the advocacy of the category, mainly coming from a market like the US, with the FDA. I think that is very important. As you know, we have been very, very ahead in terms of discussions with a number of our stakeholders in order to properly regulate the category because we see the category as the lowest risk category within the New Categories, if you want, because there is no inhalation, there is no tobacco, is the closest you can get to any NRT, type of products.

And we have now 32 markets, like I mentioned in my presentation are Modern Oral regulated. A number of those markets sits in Europe, which is also very important. And events like that with the MRTPAs being delivered by FDA is very positive overall. It's less about the commercial impact in the local market. It's more about the advocacy of the category outside, even outside the US.

David Roux, Morgan Stanley

Very clear. Thank you.

Operator

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

Damian McNeela, Deutsche Numis

Yeah, good morning. Thank you. Thanks for taking the questions. A few from me. Firstly, just on the New Categories portfolio. I think you've made the decision to exit some markets in Vapour and reprioritised in Heated. And can you just sort of indicate whether that work is now complete or whether there are sort of still markets that you're looking at around the viability of those categories? That is the first question.

Second question is, can you provide a bit more information on what specifically is happening in the German Combustibles market with regards to sort of increased competition? And if there is anything you can do to sort of what you are doing, to sort of combat that increased competition?

And then the last one is just a follow-up on Faham's question earlier. And are you able to provide any indication of relative pricing for Velo Max in the US when it launches, please?

Tadeu Marroco – Chief Executive

Okay. Yeah. Start for the last, no, the price we are not giving any indication of price of Velo Max. And on Germany, what we have seen over the last few couple of years mostly is the increase in trade labels brands in the German market. And more recently, this growth has more stabilised and but this has created some, I would say, downtrading pressures in the market that we obviously have to react to that.

We are not seeing the growth at the pace that we were seeing before in trade labels. It seems that we are coming out more to a more stable situation, but that's what has been the dynamic over the last couple of years, let's put in that way, more recently 18 months, I would say. In terms of-

Javed Iqbal, Interim Chief Financial Officer

Vapour exits and refocus on HP.

Tadeu Marroco, Chief Executive

Yeah. The HP. Yeah, the Vapour markets, we -- mainly we decide to leave markets in Asia where we don't see either proper regulatory environment and/or enforcement. So, and as a consequence, there is no financial return for a company, a legal company like BAT, because we have to compete with illegal products, which there is no level playing field if you want.

So we decide to pull out of a number of markets that we have entered in the first place when they have regulated with an expectation that regulation would be made compliant. We, this was not the case. We have to accept that. And then, given that we will be constantly looking for best return for our investments in terms of resource allocation, we make the call to pull out. So that's why you see the Vapour numbers in APMEA in particular, negative as a consequence of these exits.

In AME is more a consequence of a change in legislation in Poland that basically make completely not viable to be present in the Vapour market anymore. And also in the UK that with the change in the policies, again, another market that is very difficult to assess compliance. The latest numbers that I saw there is showing a very, very strong presence of illegal products in the UK market. So this is something that we'll be continuing reassessing, I have to say. I'll tell you that most of it we have already act on, there will be probably some impact is still coming across the H2 of this year. And as we lap this for next year onwards, become less evident about these market exit decisions.

Damian McNeela, Deutsche Numis

Okay. Yeah. Thank you. Very clear.

Operator

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

Pallav Mittal, Barclays

Good morning, team. Thank you for taking my questions. I had a technical issue earlier, so apologies if I missed it. But firstly, starting on the US Combustibles business, our volumes are better, and price-mix is a touch lower versus what you were expecting. And

I think in your comments, you said duty drawback is not a major part of it in terms of the mix.

Can you quantify the volumes that are seeing a benefit from double-duty drawback? And is it sequentially increasing or has that now stabilised? So that's the first one.

And then secondly, on your Vapour business in Europe, it has been under pressure over the last couple of years, and recently you highlighted issues in Poland, etc. But how should we think about that European business in the medium-term?

Tadeu Marroco, Chief Executive

Okay. On the Vapour in Europe, yes, the major drag for the numbers are related to Poland. And we have been in strong positions in places like Germany, which is a very, very important Vapour pool.

Vuse Ultra, for example, is making big inroads there. In other markets like France, Spain, we have a lot of competition coming to the market, but we also have a very strong pipeline that will reach the market in H2. So we feel confident in our ability to sustain our leadership position in Vapour in Europe in the markets that we have selected to participate. So that's the first one.

On the Combustibles, as I mentioned, the overall, the industry, I will talk about the industry first, we have seen a reduction in the levels of decline. And as I make the point in my presentation, a lot of that has to do with the growth of the low-end of the segment of the category that actually if anything is growing, it's not declining, it's growing, continue to grow, and we see less migration out of cigarettes towards the illegal Vapours and for basically two reasons.

One is the accessibility, the availability of these products get more constrained when you have more states passing legislation, which is the case now of 50% where the volume is sold. And also the fact that we have more solus users Combustibles that they don't want to migrate to the Vapour side. So this overall is creating a dynamic that is more favourable than in the past. It's hard to predict how it goes moving forward because, if anything, we still have to see the correlation with the oil price and the conflicts that is happening in the Middle East and how this could impact oil price, but we note that there is a correlation between oil price and consumption of cigarettes in the US. We haven't seen this yet in the H1, but it's difficult to predict in the second-half of the year. And obviously, what we will be doing and will be reflected in our top-line numbers we will be increasing our competitiveness to be able to answer the fact that the lower end of the market is growing.

So this is one element that will have an implication in the second-half of the year. The other element, like I mentioned before, is the inventory movements that has an impact around the 2% of revenue that will be lapping the second-half of the year. So it's not a reflection of the underlying performance, if you want of the first-half of the year.

That's the main reason why in the case of US, we expect to be H1 skewed in terms of performance as opposed to the rest of the group that will be H2 skewed because of the performance of APMEA improving and AME improving, more than offsetting the moderation that we'll be seeing in the US in the second-half.

Victoria Buxton, Group Head of Investor Relations

And the duty drawback…

Tadeu Marroco – Chief Executive

And the duty drawback, yeah. In the first-half was not very meaningful. And in the second-half, I will not be giving guidance about duty drawback, but this will be part of the elements that will be taken into consideration when we put in place our plans.

Pallav Mittal, Barclays

Thank you.

Operator

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

Rey Wium, Anchor Stockbrokers

Yes. Good day, Tadeu, Javed and Victoria. I just want to get back to the guidance and very strong performance on, on EPS, up 5.5%. Now if I look at your guidance, you talked about EPS middle of the range, so that brings it basically 6.5%, you talk about translation impact negative 2% to 3%.

So that brings us back to sort of adjusted EPS roundabout 4%. Am I more or less correct doing that assumption? So actually, overall implies a bit of a slowdown in the EPS growth for the year. And within that, you mentioned, obviously, the US will be a bit slower, and the other two regions will be a bit stronger. I just want to know whether that summary is spot-on.

Javed Iqbal, Interim Financial Officer

I think if you look at the profit performance of H1 and our guidance for the full-year, so actually, it will move-in the right direction, which means it will have more positive impact on EPS. But you are, sir, you're right that once we take into account the FX impact, our adjusted EPS would be in the range of 4, 4.5, which is just for a reminder is one of the best EPS performance of BAT in the recent years and we are very confident.

And as I highlighted earlier that it is mainly driven by the kickers below Operating Profit, mainly net finance cost, and also the cash conversion, and we do get benefit from being a high cash-generative business. And even in H1, we are delivering a high cash conversion, and we are on-target to remain deliver above 95% conversion for the full year. But yes, you are right that our adjusted EPS would be more than 4, around 4.5.

Tadeu Marroco, Chief Executive

On a current basis.

Javed Iqbal, Interim Chief Financial Officer

On a current basis, yes.

Rey Wium, Anchor Stockbrokers

Yeah. And then just also on that, the New Category growth, I mean, you guide for mid-teens growth. So you had 18% in the first-half. So I just want to get a feel of do you expect an improvement in the heated products, which was down 12% again obviously, I'm just curious about the growth in Vapour whether we can probably see a little bit of an acceleration there?

Tadeu Marroco, Chief Executive

Yeah. Look, on Vapour, obviously, we will have Vuse flavours coming in the market. But remember that I said that would be a phased approach. So most of the impact we'll be feeling in 2027. We also have to take into consideration that we'll be lapping the exit of one competitor in the US that happened in the second-half last year. And so that's the dynamics around the Vapour.

And in HP, I'm not expect anything meaningful changing from the financial point of view. I do expect us to recover share from now until the end of the year with all the actions that we are putting in place. And Velo, which is mainly the reason why we are calling in the mid-teens, we'll be lapping a much stronger comparator in the second-half. Because, remember that in the first-half of this year, we had basically launched Velo Plus at the end of '24. They were still building up in the first-half of '25. So we just lap this half year now in '26.

So they have a very, very strong numbers in terms of volume, in terms of revenue, triple-digits in the US, and obviously, when it comes to the second-half of the year, they are lapping a much stronger second-half of '25. That's the only reason why we are saying mid-teens in the in the full-year.

Rey Wium, Anchor Stockbrokers

Excellent, thank you.

Operator

Thank you. And our final question today is from Richard Felton from Goldman Sachs. Please go ahead.

Richard Felton, Goldman Sachs

Thanks. Good morning. Thank you for squeezing me in. Two questions from me, please. The first one on US Vapour specifically. As we think about the competition between Vuse and the illicit segments, what are the gaps as it relates to flavours, devices, and price points? And which of those gaps can you now close as a result of the FDA prioritisation guidance? I suppose...

Tadeu Marroco, Chief Executive

Okay, look. You want to ask another question? So let's finish here. You have another question or just...

Richard Felton, Goldman Sachs

Just sorry, but that was the first one.

Second one was on free-cash conversion. Obviously, a little bit stronger than we would we normally see from BAT in H1. And the question is what are the drivers of that? Is it just phasing between periods, or does that point to potentially better cash conversion on a full-year basis too? Thank you.

Tadeu Marroco, Chief Executive

Okay. On the Vapour – Javed cover the free-cash flow. On the Vapour side, obviously, we are more interesting on the channel, because you probably saw there in my slide that we talk about illicit presence in channels, track channels being 12%, but this is just 2% of the size of the illegal market because most of the sales of illegal is done via independent and vape stores. And it's not just about the flavours, it's about they bring to-market a big device, big tanks device with a massive number of puffs that we will never be allowed to do. And it's not just a question of FDA approving because we as a responsible company, we never commercialise any Vuse product in the world with more than 10 ml in terms of cartridge that equates to something like 4,000 puffs, because as you puff more and more, the metal degrades and contaminates the liquid that you inhale. So it's a bad vapour, and they don't care about that, those illegal players. So you go out there, and you buy 10,000 puffs and 20,000 puffs device. In my last market in the US, I saw one of 100,000 puffs device. And obviously, this has financial benefits when you consider the cost per puff of this device, I will never be able to compete there. And this is a gap that needs to be closed by enforcement because clearly this shouldn't be in the market in the first place because it doesn't bring any type of benefit health-wise, if not the contrary. So what will be closing the playing field is on the convenient stores channels where we haven't been able to be present with flavours since 2021, January 2021. We will be back is a very important channel as well. And more important is a channel where we feel very confident about our ability, through the retailers to check IDs before selling these products, where not necessarily happens when you indiscriminate, start selling in independent stores and other type of stores.

So I think that this, in that channel, we'll be closing the gap substantially will be competitive. Now the impact of this in the overall illicit market, we have to wait-and-see. I don't want to do a proper estimation on that now.

Javed Iqbal – Interim Chief Financial Officer

And I think on the cash conversions, two points from my side. One is because of the lower net financing cost, as I highlighted earlier, which was due to the debt repayment from the proceeds of ITC. But more importantly, also, I think I'm very proud of the work the finance team keeps on doing with our commercial colleagues to keep focus on cash as much as we do on profit. So hence, that focus on cash has delivered higher cash, which makes me very confident that for the full year, we will be delivering another year of more than 95% cash conversion for the full year.

Tadeu Marroco, Chief Executive

Yeah. I wouldn't touch much more that will be much better than previous year because we have a track record of a very strong cash conversion. The performance in H1 just give us more confidence that can be another year of a very strong delivery in that place.

Richard Felton, Goldman Sachs

Thank you very much.

Operator

Thank you. With this, I'd like to hand the call-back over to Victoria for any additional or closing remarks. Over to you, ma’am.

Victoria Buxton – Group Head of Investor Relations

Thank you. Well, thank you very much for all the questions from the telephone lines.

I'm afraid we are out of time and therefore will not be able to get to the online questions, but the IR team will respond directly to those who sent questions in.

And now I'd like to hand back to Tadeu for closing remarks.

Closing comments

Tadeu Marroco – Chief Executive

Okay. Thank you all for listening today and for your questions.

And then just to close, our H1 results were in line with expectations, and we are on track to deliver our Full Year guidance, with EPS now expected to be towards the middle of our 5 to 8% range.

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

Thank you again for joining us.

I look forward to seeing many of you in September at our Capital Markets Day.

--END--

[*] 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.

[**] *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.