

BofA Global Research ESG Consumer & Retail Conference 2021

Presentation script

Presenters: David O'Reilly and Jennie Galbraith

DAVID O'REILLY

Slide 1

- Hello everyone I am David O'Reilly – Director of Scientific Research at BAT
 - and I am here with Jennie Galbraith... our Head of ESG.
 - We are both delighted to be here to share with you...
 - How BAT is delivering and why we are confident and committed to our unique multi-category approach,
 - To showcase the strength and depth of BAT's Science, R&D and ESG capabilities, which are
 - playing a key role in accelerating our transformation,
 - and are central to 'Building a Better Tomorrow' for all our stakeholders.
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Slide 4

- Central to our mission to build A Better Tomorrow is Our Purpose: 'to reduce the health impact of our business'
 - We want to encourage smokers who would otherwise continue to smoke, to switch completely to reduced risk alternatives
 - Given the health impact of cigarettes, it is our biggest ESG responsibility and greatest contribution that we can make to society, and it will drive the sustainable growth of our business.
 - So, as we win, society wins.
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Slide 5

- Delivering on our core purpose will transform BAT into a
 - high growth,

- multi-category Consumer Products company,
 - with a reduced impact on public health.
 - We have and continue to invest in the rapid growth of our New Category business and have stretching targets...
 - of 50m consumers of our non-combustible products by 2030, up from 13.5m in 2020
 - and New Category revenue of £5bn by 2025, up from £1.4bn in 2020
 - This is delivering and our pace of change accelerated in the second half of 2020:
 - We doubled the growth of our consumer numbers, and
 - Had around 50% volume growth in each of the New Categories
 - So, let me now take you through the crucial role that Science is playing in this transformation
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Slide 6

- The harm caused by smoking is well recognised, and is why Tobacco Harm Reduction is critical
 - However, it is critical to understand where the harm associated with smoking actually comes from
 - The evidence shows that most comes from inhaling the products of combustion, and not nicotine
 - So, for those consumers who choose not to quit, nicotine delivered without combustion can significantly reduce the health outcomes
 - This has been recognised by public health bodies, who support the role of reduced risk alternatives and consumer choice.
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- Tobacco Harm Reduction's importance has been building since the US National Academy of Sciences' Institute of Medicine published its seminal report 'Clearing the Smoke' in 2001
- It laid out a weight of evidence approach to scientifically assess the risk profile of New Products and this is still the bedrock today of tobacco harm reduction science
 - Importantly it concluded that: the closer the risks and exposures from a reduced risk product are to cessation, the more confident a regulator can be in the public health benefit

- This has been central to the FDA's approach and also our approach at BAT
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- Our approach is built around three key pillars that form the backbone of our work in science and our engagement with regulators such as the FDA and other external stakeholders
 - 1. The first is that smokers are most likely to switch when they find a product that satisfies their specific preferences and motivations.
 - 2. The second is the need for world class science.
 - Both to ensure we are constantly innovating and delivering what consumers want,
 - but also generating robust scientific evidence to demonstrate these products pose less risk to health compared to cigarettes
 - 3. This world-class science can also be used to inform and evolve the standards and regulations that govern this space. So that:
 - Consumers can have confidence in the products they buy and brands they trust
 - The regulations give consumers access to the best new products
 - And, as an industry, we hold ourselves and others to account to ensure high standards
 - And we must do this the right way...and this is why ESG is at the centre of everything we do.
 - Let me now take you through these key enablers in turn...
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Slide 9

- We have a unique market-leading consumer-centric, multi-category model.
- Led by the consumer, this model leverages our well-established
 - Cross-category consumer insights,
 - deep understanding of product satisfaction,
 - detailed market opportunity mapping
 - And digital consumer understanding...
 - supported by data analytics.
- We believe that this gives us a unique competitive advantage

- ... One that would take many years to replicate.
 - All of this is underpinned by a strong scientific foundation,
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- It's clear that our multi-category opportunity is huge!
 - Both today...
 - by increasing our 17% share of today's 80m new category consumers across THP, vapour and Modern oral
 - With an even more exciting opportunity tomorrow ...
 - We forecast significant growth in consumer numbers and a near doubling in industry revenue over the next five years.
 - It is important to remember that with 1.1bn smokers globally,
 - 2025 is just a milestone
 - We have a significant runway of growth for many years to come.
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- We have already invested in building three powerful global brands across the three categories:
 - Vuse
 - Glo; and
 - Velo
 - Each of these brands on its own is important in its own right, and as the only truly multi-category company, we are uniquely positioned, to address the preferences of smokers globally.
 - This gives us a clear advantage for consumer acquisition and growth.
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- We have a long history in Science and R&D
- And have been a leader in the area of Tobacco Harm reduction for many years
- We have and continue to invest in world class science and R&D, with our R&D Centres in the UK and US

- We have recently completed a 12 month clinical study of our tobacco heating product, glo, with very encouraging results.
 - In addition we have BTomorrow Ventures,
 - a fund that has been set up to help explore and develop new science, technologies and capabilities, in nicotine and beyond.
 - To date it has made 12 investments in businesses across the globe to further enhance our Science and R&D partner ecosystem.
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- As highlighted earlier, generating robust scientific evidence about our products is essential to support their role in Tobacco Harm Reduction
 - To do this we have a clear Multi-disciplinary Risk Assessment Framework aligned with the US FDA
 - Most new category products remain relatively new to the market. This means that they lack the epidemiological data required to characterise the harm reduction impact over decades of use.
 - Instead, it is necessary to take a weight of evidence approach based on emissions, exposure and risk levels for each product.
 - It is important to build the evidence in each of these domains, using a range of scientific methods.
 - And because we have been generating these data for many years, we have now progressed as far as population studies
 - The importance of these data is why we publish transparently all of our studies on our science website: 'batscience.com', as we want to ensure anyone can access this important information.
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- So, based on the substantial evidence we have been generating over many years, along with evidence from others, you can see that all our new category products cluster at the low toxicant end of the continuum
 - Because these products do not rely on combustion, and with all the evidence we and others have generated, this means that they have the potential to be significantly less harmful to health
 - We have made great progress, but as ever in the field of science, we must continue to conduct cutting edge scientific research to help Build A Better Tomorrow.
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Slide 15

- Vapour is a good example of our history, rigour and expertise in our approach to tobacco harm reduction science
 - As the first international tobacco company to launch an e-cigarette, we are the leader in this category and have constantly strived to create the much needed evidence about vaping products
 - We have also used consumer insights to continuously improve our products by enhancing their design and safety
 - We have also launched vapeexplained.com to help build consumer understanding of the category
 - And as the upcoming pilot of age verification technology shows, our work across all areas of product science, efficacy and safety is ongoing
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Slide 16

- As the longest established category with a growing body of evidence, vaping is the area where the tobacco harm reduction is gaining most traction.
 - A number of key Governmental and non-Governmental authorities have recognised the potential benefits to smokers of switching to vaping, which is great news....
 - But much more needs to be done in this area
 - and... most importantly... it must be informed by science
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- This is why we have generated significant amounts of data – and are now focused on population studies.
 - These exposure data from a short-term randomised clinical study measure 14 Biomarkers of Exposure to toxicants in participants that either continue to smoke, switch to Vuse or quit entirely.
 - Most of these markers change quickly
 - and we found that most biomarkers in the group that switched to Vuse had levels similar to those that quit,
 - and were much reduced from those who continued to smoke.
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- Now moving to Tobacco Heating Products.
 - Again this is an area of growing interest and also external consensus on the harm reduction potential.
 - Potential that we have been characterising in modelling papers...which will be published later this year and shows, numerically...the potential positive impact at a population level of completely switching from smoking to THP.
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Slide 19

- Another study, which we are very excited about is our recently completed: 12 month biomarkers of potential exposure and harm study. The three-month analysis shows:
 - All markers for glo crossed the threshold of biological significance
 - In many cases, the markers reduced to the same level as cessation.
 - From these data we have confidence that the responses from glo are similar to cessation, which is the gold standard for reduced harm
 - Further data from this study will be published this year.
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Slide 20

- For our modern oral products, the story begins with SNUS in Sweden, where males have been shown to have the lowest rates of smoking in Europe as many consumers have switched to SNUS
 - SNUS is a smokeless oral product containing 100% tobacco, which consumers usually place under their lip during usage
 - Because Swedish males have switched to SNUS for more than 30 years...public health scientists in Sweden have been able to track disease rates on a yearly basis and today Sweden has the lowest incidence of lung cancer in the whole of the EU
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- So if we move our focus from SNUS to Modern Oral products
- Studies on VELO assessed the top 9 toxicants that the WHO believes are mainly responsible for smoking related diseases
- In these studies, the levels of these chemicals for VELO were more than 99% reduced compared to cigarettes and more than 76% reduced compared to SNUS

- Therefore we conclude, that VELO has substantially lower levels of toxicants than both cigarettes and SNUS
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- So in summary,
 - Based on our own and 3rd party data across
 - Emissions
 - Toxicology
 - And Clinical and population studies
 - Our products are scientifically substantiated with the potential to reduce risk.
 - These data support the need for consumer access and choice
 - and demonstrate the critical importance of Tobacco Harm Reduction in public health policy.
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- We believe new category products should be appropriately regulated and founded on science.
 - We are actively engaging with governments, policy makers, and regulators around differentiated risk and consumer choice.
 - We believe there are 5 key dimensions that should underpin regulatory policy:
 1. An evidence-based approach – where data-driven decisions drive quality and safety standards
 2. Proportionate regulation – that gives consumers both the choice and freedom to consume reduced risk products.
 3. Freedom to innovate – driving continued investment in new ways to meet consumer preferences
 4. Engagement, dialogue and communication – encouraging a constructive debate
 5. And finally, responsible marketing freedoms – to accelerate the transition of consumers away from cigarettes.
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DAVID O'REILLY

- As I have shown, our commitment to reducing the health impact of our business is core to our Purpose at BAT
- Last year we set ourselves a range of stretching targets that show our commitment to delivering value for all our stakeholders
 - £5bn new category revenue by 2025
 - And 50 million consumers of non-combustible products by 2030
- Alongside Science, to create the enterprise of the future we must operate to the highest standards across E, S and G.
- Jennie will now take you through our strong foundations and exciting work in this space

JENNIE GALBRAITH

- Thanks David
- As David highlighted, reducing the health impact of our business is core to our purpose and is the principal focus of our Sustainability Agenda.
- This is underpinned by excellence across all our ESG priorities, and our integrated approach to creating shared value.
- We have set out stretching headline targets to drive a transformation of our business, including:
 - Carbon neutrality by 2030
 - And a range of plastics targets for 2025
- And we have recently set out a wider range of goals across renewable energy, water and waste.
- This will accelerate the transformation of our business and help build A Better Tomorrow.

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- ESG has always been a core part of how BAT has operated.
 - We have led the sector in many areas including from publishing the industry's first social report in 2001, to our recent industry first of a Human Rights report.
 - We have also collaborated with industry peers, including as a founder of the Eliminating Child Labour in Tobacco-growing Foundation.
 - We are building on these strong foundations to generate shared value for all our stakeholders...
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Slide 26

- We have clear priorities for each of our stakeholders groups
 - These are interlinked and build off each other to help accelerate our transformation
 - As shareholders win, so do consumers, employees and society.
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Slide 27

- The work we do on health, and across E, S and G is vital to our shared value strategy.
 - From creating an inclusive, empowering culture in a company that employees are proud to work for.
 - To creating a positive impact to society throughout our value chain
 - And in our interactions with consumers
 - This is all transforming how we operate every day...
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Slide 28

- ESG is already deeply embedded in our organisation and our people
 - in our ways of working, and
 - in our culture
 - For example,
 - From the extensive work we do to enhance the livelihoods of the 85,000 farmers we contract directly with...
 - To our Vuse launches this year incorporating age verification...
 - And we have been investing in our global team to better drive our transformation...
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Slide 29

- We have clearly defined targets across the business to drive change and to give transparency on our progress.
- Last year we:
 - Set a goal to be Carbon Neutral on Scope 1 & 2 by 2030,

- Brought forward our previous environmental targets by 5 years to 2025, and
 - Established new plastic targets for 2025
 - This year we went a step further, with new ambitious environmental targets including:
 - Carbon neutrality across the value chain by 2050
 - 100% renewable electricity by 2030
 - 100% of our manufacturing sites certified by the Alliance for Water Stewardship and have zero waste to landfill by 2025
 - We are already making strong progress across the ambitions we previously set out...
 - and are confident that they will accelerate our transformation
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Slide 30

- Here we've summarised our progress on just four of the workstreams that we have for Environmental management
 - Beyond our work on carbon, which I'll cover over the next few slides, we have:
 - Reduced water usage by over 20% over the last three years by eliminating leakages and reusing the water from manufacturing for utilities, cleaning and washrooms.
 - Ensured that almost 100% of the wood our contracted farmers use is from sustainable sources
 - Launched recyclable packaging, such as single-polymer pack for Velo mini, to ensure we are on track for our 2025 plastic target
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We have strengthened our climate strategy by taking an integrated approach covering both our operations and our value chain.

- We apply a TCFD-based climate risk approach and have commissioned scenario assessments to help define material climate change risks.
 - We have also introduced a shadow internal carbon price so sites can consider carbon-intensity in decisions on utilities and fleet
 - We are already making great progress on the ambitions we have set out...
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For example, for scope 1 and 2:

- We have reduced our carbon emissions by -37% over the last three years, with a 30% reduction in 2020 alone.
 - We have increased our use of renewables, including through on-site solar energy generation at factories in eight countries, with more planned this year.
 - We are also proud that three of our major sites are already going through external certification for carbon neutrality.
 - And, beyond our own operations we are also making good progress in addressing our Scope 3 emissions...
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These are critical as they represent around 90% of our total carbon footprint

- In our leaf supply chain, efficient curing technologies have been introduced to our contracted farmers in five countries, with more to come
 - We also engage with our materials suppliers, and by 2025 aim for all high-risk product materials suppliers to have undergone at least one independent environmental audit within a three-year cycle
 - Our work has achieved recognition, such as inclusion in CDP's Supplier Engagement leader board
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Slide 34

- Again, here we show our progress on just four of our Social impact workstreams
 - Beyond our work on human rights, which is covered in the next few slides, we have:
 - Reduced accidents across the group by 50% since 2017, through training programmes on driver behaviour to in-vehicle telematics monitoring systems
 - Realigned our Diversity & Inclusion governance structure, including quarterly reviews by our Management Board to closely monitoring progress
 - Let's now take a closer look at our human rights strategy, which is at the heart of our work on Social...
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Slide 35

- We work hard to respect the human rights of our employees, the people we work with and the communities in which we operate
 - We take a holistic approach to keep ourselves and our supply chain aligned and accountable through strong:
 - Policies,
 - due diligence and
 - remediation programmes
 - We have a long-standing commitment to respect human rights and our strategy is aligned to the UN Guiding Principles
 - In the next few slides, we outline our human rights due diligence for our operations and those of third-party suppliers in tobacco leaf, and then also in our non-leaf supply chain.
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Slide 36

- We have a comprehensive approach to eliminate child labour that involves both
 - Close monitoring at the farmer level and
 - Work on the root causes of child labour such as rural poverty
 - We set out our approach in the Human Rights focus report, published late last year, and also published independently assured child labour data for the first time
 - Central to our work are the monthly visits by field technicians to farms during the growing season – one of the benefits of our more vertically integrated supply chain than peers.
 - To complement our farm monitoring, we conduct Human Rights Impact Assessments that also cover the root causes of issues and how they manifest
 - Rural poverty is recognised as a primary root cause of human rights issues in agriculture... and so enhancing farmer livelihoods is central to our strategy.
 - If farmers have profitable farms, they are less likely to use cheaper forms of labour ... including their children
 - We also work with our partners including the ECLT Foundation, which since 2011 has financially empowered over 95,500 families including through village-based saving schemes and loans
 - This comprehensive approach carries through to our non-leaf supply chain...
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Slide 37

- We also have a rigorous focus on human rights in our non-leaf supply chain...conducting annual risk assessments on 100% of all new and existing materials suppliers.
 - Before we work with any supplier, Intertek perform an independent audit covering forced & child labour, wages & hours, and health & safety.
 - This is aligned to ILO standards, and those who do not achieve our threshold levels will be blocked until they implement corrective actions
 - Each year our existing suppliers are assessed against independent human rights indices developed by Verisk Maplecroft...with high risk suppliers prioritised for audits
 - Beyond our Tier 1 suppliers, we conduct risk assessments and audits on tier 2 suppliers in business-critical areas, such as for packaging materials and new category products
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- Our Standards of Business Conduct is owned by BAT's Main Board and includes 17 global policies which set out our high standards of Governance.
 - The global policies include lobbying and engagement, gifts and entertainment, anti-bribery and corruption, and Speak Up, which relates to whistleblowing.
 - Each year employees must formally confirm they have complied with the SoBC, complete an annual SoBC e-learning and declare any personal conflicts of interest.
 - We managed to achieve 100% completion in 2020, for the fourth year in a row, primarily through the use of our SoBC app as one of the formats via which employees could 'sign-off'.
 - The SoBC is available in 14 languages and are accessible via our SoBC app, which has been downloaded over 17,000 times
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- Over the last five years the team has continuously strengthened our processes across areas including whistleblowing, anti-bribery, sanctions, and M&A.
- With these strong foundations in place we are now focused on data analytics, automation and our interactions including third party management.
- This has been recognised externally, with the Dow Jones Sustainability Index rating us as 'industry leading' in the Codes of Conduct category, with a score of 90% in 2020.

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- This commitment to integrity extends to ensuring we operate to the highest standards in our contact with consumers, which is governed by our International Marketing Principles and our Youth Access Prevention plan.
- These high standards apply globally, even when they are stricter than local laws ...
 - And, as David mentioned, we work with governments to ensure a level regulatory playing field.
- Our principles are continually updated to reflect changes, such as digital marketing or new product launches.
- We work to ensure our IMP are applied consistently, with mandatory training for all Marketing and Legal employees who sign off all marketing materials
- We also apply close oversight to Youth Access Prevention, including through conducting an annual compliance review.

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We fully support the United Nations' whole-of-society approach to ESG.

- This is why we have mapped our Sustainability Agenda to the eight SDGs that are most relevant for our business and stakeholders
- Our purpose to reduce the health impact of our business will make a significant contribution to SDG 3, 'Good Health & Wellbeing'.
- Equally, our efforts to combat climate change cut across all aspects of our business.
- Our business activities also extend to 'priority' areas where we can make a significant contribution.
- And our localised goals align with issues that are important in a local context.

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- So, we have an integrated approach to creating share value.
 - We have set out stretching targets across the business, and are making strong progress towards them
 - We are working across Health, and each of E, S and G to transform our business, to produce strong financial results and to deliver A Better tomorrow.
 - And with that I'll hand back to David...
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DAVID O'REILLY

- Thank you Jennie
- As we have shown, we are fully committed to accelerating the delivery of our Core Purpose to reduce the health impact of our business
- This will both transform BAT and our role and relationship with society
- Our industry leading work across Science and ESG are central to this transformation and to creating A Better Tomorrow.
- Thank you for listening
- Mircó, over to you for questions