Paris DB Consumer Conference

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Nicandro Durante
Chief Executive Officer
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Important Information

Forward-looking Statements (continued)

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We have delivered consistent eps growth

Reported Adj EPS
Reported DPS

Adj^ EPS CAGR 9.8% p.a
DPS CAGR 11.9% p.a

First Health Warnings in the US First Health Warnings in the UK Advertising banned in South Africa The FCTC is established Tobacco display bans introduced in Canada Standardised Packaging introduced in Australia FDA regulation and Growth in Vapour

^ See Appendix: A1, source: Company data
Confidence in the delivery of HSF EPS is unchanged

**Drivers of Earnings Growth**

- **Volume-Share growth in a declining industry**
  -1-2%

- **Revenue Growth**
  +3-5%

- **Operating margin Growth**
  +50-100 bps (on average over the yrs)

- **Profit Growth**
  MID SINGLE FIGURE

- **EPS Growth**
  HIGH SINGLE FIGURE

NGP impact
A more sustainable business

- Combustible business continues to outperform
- The US remains a great opportunity
- NGPs – we have the strategy and products to win
Pricing remains robust

Organic price mix (inc THP) remains within a historic 4-6% range

Price Mix

Source: Company data
BAT volume continues to outperform the industry

Volume trends remain in line with historical levels

- BAT volume continues to outperform the industry
- Volume trends remain in line with historical levels

* BAT estimate, ^BAT Vols adjusted for the impact of acquisitions, source: Company data
The US remains a great opportunity

- RAI Corporate share stable after strong growth in H2 2017
- On track to deliver synergies target of at least $400mn by end 2020
- Pricing opportunities remain strong

*YTD 20th May 2018  Source: Industry metrics based on sales to retail
Combustibles – from strength to strength driven by our strong portfolio and innovation

Market share

- **GDB Share**
- **US Drive Brands Share**
- **Group Market Share**

Innovation

- **Innovation volume 4 times bigger vs 2010**
- **Innovations | 1 in every 3 cigarettes sold**
- **59% of GDB volume carries an innovation**

*excluding RAI

^ See Appendix: A2, source: Company data
Nicotine consumer pool continues to grow

Number of consumers T40 markets excl. US, source: Company data
Consumers are segmenting
Modelled NGP preponderance by 2020

- Predominantly Vapour (>66%)
- Predominantly THP (>66%)
- Mixed
We have the right strategy

- Longer-term margin upside
- New consumers
- New behaviours

- Highly profitable
- Broad category
- ASU35 US leader

- Margin enhancing
- Greatest opportunity in markets with
  - High menthol
  - High tobacco affinity
Vapour offers new revenue opportunities

Incremental revenue

£Mns UK NTO evolution

- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016
- 2017
- 2018
- 2019
- 2020

- Combustibles (Duty Paid)
- Vapour

More profit per consumer

- £78
- £95
- 317zl
- 371zl
- €67
- €166

'17 Annualised GM realisation per consumer Based on average annual individual consumption. Sources: Vype online consumer surveys
BAT no 1 globally in vapour ...

- Consumables growing +29% vs SPLY
- Device sales stable
- ePen cartridge monthly sales run rate at record high ~1m units
- eLiquids up 31% in Q1

- Vuse growing volume and value, following double digit growth in 2017
- Vibe recall progressing well with the majority of displaced volume moving to SOLO and CIRO
- Pod mod launches planned for Q3

Based on current smokers who have tried e-cigs
THP - consumer & market profiles determine initial growth rates

Factors favouring faster rates of THP growth:

- **Lower strength preferences** in FMC
- **High importance of modernity & style** in FMC brand choice
- **Restrictions on or low prevalence of vapour**
- **High affordability of premium** in ASU30

All favourable:

Fastest initial growth

Some favourable:

Moderate initial growth

Mostly unfavourable:

Slow initial growth

* Estimated THP share in total tobacco, April 2017

Japan 21%*

Korea 7.4%*

1-5%* within launch geos

<0.5%* within launch geos

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glo continues to perform well

**glo in Japan**

- glo national share at 4.3%* in April
- Capacity constraints lifted in H2
- Captured 60% of Category growth post national Expansion
- Nationwide device penetration for glo reached 10.2%
- 8 variants – widest flavour range in the market

**glo in other countries**

- **S KOREA**
  - glo share is at 0.8% vs. 0.4% in Q4 2017 due to national expansion
  - 6.6% share of THP category. Sales reached a new monthly record of 56mn
  - Successful launch of two capsules in April

- **ROMANIA**
  - Healthy conversion from glo adoption to occasional and solus usage
  - Now in 17 cities
  - glo off take share in handlers at 0.3% and growing

- **RUSSIA**
  - Initial consumer response is positive
  - Gradually building distribution and expanding our direct to consumer engagement activities

* Based on CVS data, source: Company data
As THP expands beyond Early Adopters, growth rate slows down

In Japan, further expansion is to more conservative consumer segments and adoption will be slower

Diffusion curve for innovative categories
Driving adoption in THP

Device price is one of the key barriers for category entrants

BAT Strategy

Managing device affordability

- 20 – 30% COGs reduction (LE’18 vs. YE’17)
- Benefit transfer to Consumers
- Consumers who opt into Hypercare / conversion program qualify for discount

Helping conversion
Product Portfolio & Pipeline

David O’Reilly
Group Scientific and R&D Director
The BAT Group does not own all brands referred to in this presentation in all markets e.g. BAT is the owner of the Camel and Natural American Spirit brands in the United States only.
THP
THP: glo family grows

**glo series**
- Premium look and feel
- Duo treatment, sleeker yet organic feel
- New colour range

**glo series Mini**
- Premium look and feel
- Streamlined profile
- Reduced weight

**neo**
- Higher consumer satisfaction
- Introducing capsule offerings
- New flavour territories
2018/19 THP pipeline is strong
Vapour – ePen3
Time to seriously raise the bar – Vype ePen3

- ✔ Mod satisfaction in pod system
- ✔ Cotton wick for better taste
- ✔ All day charge
- ✔ Extensive flavours and nicotine range

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Competitor 1*  
Competitor 2**

*blu and **JUUL

Source: BAT+RAI R&D lab testing
**ePen3: Strong proposition validated in research and in situ**

**Acquisition**
- 71% purchase intent
- 25% share of all VIP device sales

**Conversion**
- 47% actual FMC reduction
- 90% adoption

**Retention**
- 57% predominant nicotine product use
- 40% solus use

**Impact and Satisfaction also increasing**

*The amount of vapour that epen3 produces is just **perfect**, the amount of "**throat hit"** is at the absolutely perfect "**sweet spot""*

*I am really impressed, the vaping is much more intense*

Sources: VIP sales, week 4 in situ Kantar panel
ePen3: High quality vapour

These results do not necessarily mean this product produces less adverse health effects than other tobacco products.
Vapour – iSwitch
A new beginning – for smokers to change for good

The New Vype iSwitch

Performance
- Strong sensorials
- High aerosol mass and particle size

Purity
- No dry puffs
- Very low toxicity

Satisfaction
- Higher nicotine/puff
- Nicotine salts

Unique technology
- New to world exclusive tech
- IP protected

These results do not necessarily mean this product produces less adverse health effects than other tobacco products.
Vype iSwitch Science – our cleanest ever aerosol

Substantial reduction in gene expression responses for vapour products: Cig >>> coil and wick (ePen) > Puretech (iSwitch)\textsuperscript{a}

\textsuperscript{a} For comparative purposes only as ePen responses were versus 3R4F and iSwitch responses were versus 1R6F.
\textsuperscript{b} Cigarette v Vapour [Haswell, L.E. et al (2017) Sci Reports, 7(1),
\textsuperscript{c} Cigarette v iSwitch (unpublished data)
These results do not necessarily mean this product produces less adverse health effects than other tobacco products.
USA FDA Filings

- Eclipse v2 SE under scientific review
- Camel Snus MRTPA under scientific review
  - TPSAC Meeting likely in Q3/4
- glo SE filed and under scientific review
- MRTPA on glo still scheduled for July 2020
A strong strategy and a multi-platform portfolio of combustible and potentially reduced risk products underpinned by leading science

BAT has a leading portfolio of products to win in every consumer category and segment

Behind every product platform is a strong pipeline of innovation and scientific substantiation

BAT has built outstanding science, technology and innovation firepower over the last 5 years
A winning strategy

- We are outperforming in combustibles
- The US remains a great growth opportunity
- We have the right strategy and products to win in NGPs

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Appendix

A1: Adjusting (Adj.)
In the reporting of financial information, the Group uses certain measures that are not required under IFRS, the generally accepted accounting principles ("GAAP") under which the Group reports. The Group believes that these additional measures, which are used internally, are useful to users of the financial information in helping them understand the underlying business performance. Adjusting items, as identified in accordance with the Group’s accounting policies, represent certain items of income and expense which the Group considers distinctive based on their size, nature or incidence.

A2: Innovation
We make significant investments in research and development to deliver innovations that satisfy or anticipate consumer preferences and generate growth for the business across all categories. The main focus of this investment is in our NGPs, such as vapour and THPs. We also conduct R&D into our conventional cigarette innovations such as capsule products, additive-free products, slimmer products, tube filters and Reloc, our resealable pack technology.