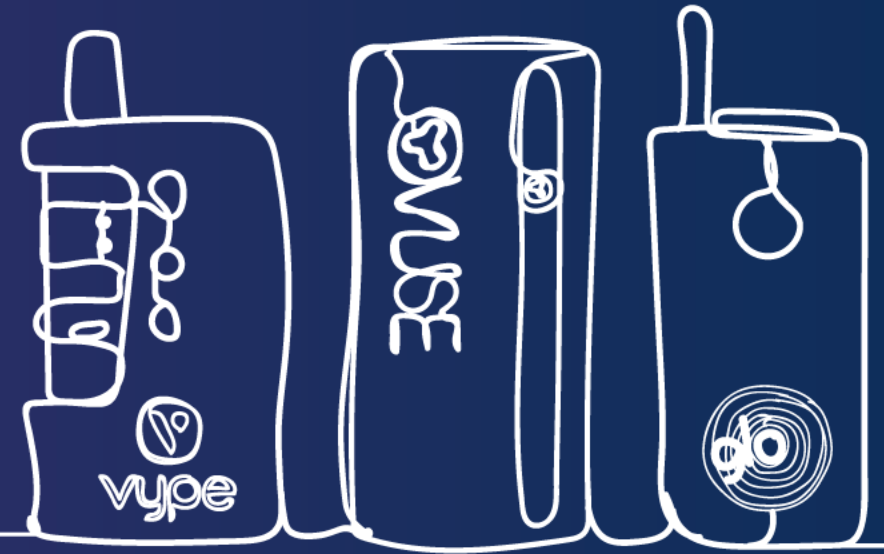


# Next Generation Products

Kingsley Wheaton  
Managing Director – NGP



# Important notice



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## Forward-looking statements

Certain statements in this communication that are not historical facts are “forward-looking” statements made within the meaning of Section 21E of the United States Securities Exchange Act of 1934. These statements are often, but not always, made through the use of words or phrases such as “believe,” “anticipate,” “could,” “may,” “would,” “should,” “intend,” “plan,” “potential,” “predict,” “will,” “expect,” “estimate,” “project,” “positioned,” “strategy,” “outlook” and similar expressions. The absence of these words does not necessarily mean that a statement is not forward-looking. All such forward-looking statements involve estimates and assumptions that are subject to risks, uncertainties and other factors that could cause actual future financial condition, performance and results to differ materially from the plans, goals, forecasts, projections, budgets, expectations and results, whether expressed or implied, in the forward-looking statements and other financial and/or statistical data within this communication. Such forward-looking statements are based on numerous assumptions regarding BAT’s present and future business strategies and the environment in which it will operate in the future. Circumstances may change and the contents of this presentation may become outdated as a result. Among the key factors that could cause actual results to differ materially from those projected in the forward-looking statements are uncertainties related to the following: the failure to realize contemplated synergies and other benefits from mergers and acquisitions, including the recent merger of Reynolds American Inc. (“Reynolds”) and BAT; the effect of mergers, acquisitions and divestitures, including the merger of Reynolds and BAT, on BAT’s operating results and businesses generally; the ability to maintain credit ratings; changes in the tobacco industry and stock market trading conditions; changes or differences in domestic or international economic or political conditions; changes in domestic or international tax laws and rates; the impact of adverse domestic or international legislation and regulation; the ability to develop, produce or market new alternative products and to do so profitably; the ability to effectively implement strategic initiatives and actions taken to increase sales growth and the market position of BAT’s brands; the ability to attract, convert and retain new or existing consumers; the ability to enhance cash generation and pay dividends; adverse litigation and dispute outcomes and the effect of such outcomes on BAT’s financial condition; adverse decisions by regulatory bodies and changes in the market position, businesses, financial condition, results of operations or prospects of BAT.

# Important notice (continued)



Additional information concerning these and other factors can be found in BAT's and Reynolds's filings with the U.S. Securities and Exchange Commission ("SEC"), including Reynolds's most recent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and BAT's registration statement on Form F-4, which was declared effective by the SEC on June 14, 2017, and Current Reports on Form 6-K, which may be obtained free of charge at the SEC's website, <http://www.sec.gov>, and BAT's Annual Reports, which may be obtained free of charge from BAT's website [www.bat.com](http://www.bat.com). Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof and BAT undertakes no obligation to update or revise publicly any forward-looking statements or other data or statements contained within this communication, whether as a result of new information, future events or circumstances otherwise.

No statement in this communication is intended to be a profit forecast or profit estimate and no statement in this communication should be interpreted to mean that earnings per share of BAT for the current or future financial years would necessarily match or exceed the historical published earnings per share of BAT.

# Your Questions...



Can you 'make us believe' that your **multi-category strategy** is the right one?

---

Update us on your **Vapour performance** and outline **marketplace's commercial viability**.

---

How can you deliver **category leadership with your Glo & THP** platform(s)?

---

Why are you not **rolling out faster**?

---

Given you leadership ambition, **what capacity do you have**, especially for Glo?

---

Explain the **confidence** in your stated **NGP future**?




Consumer



Products



Market

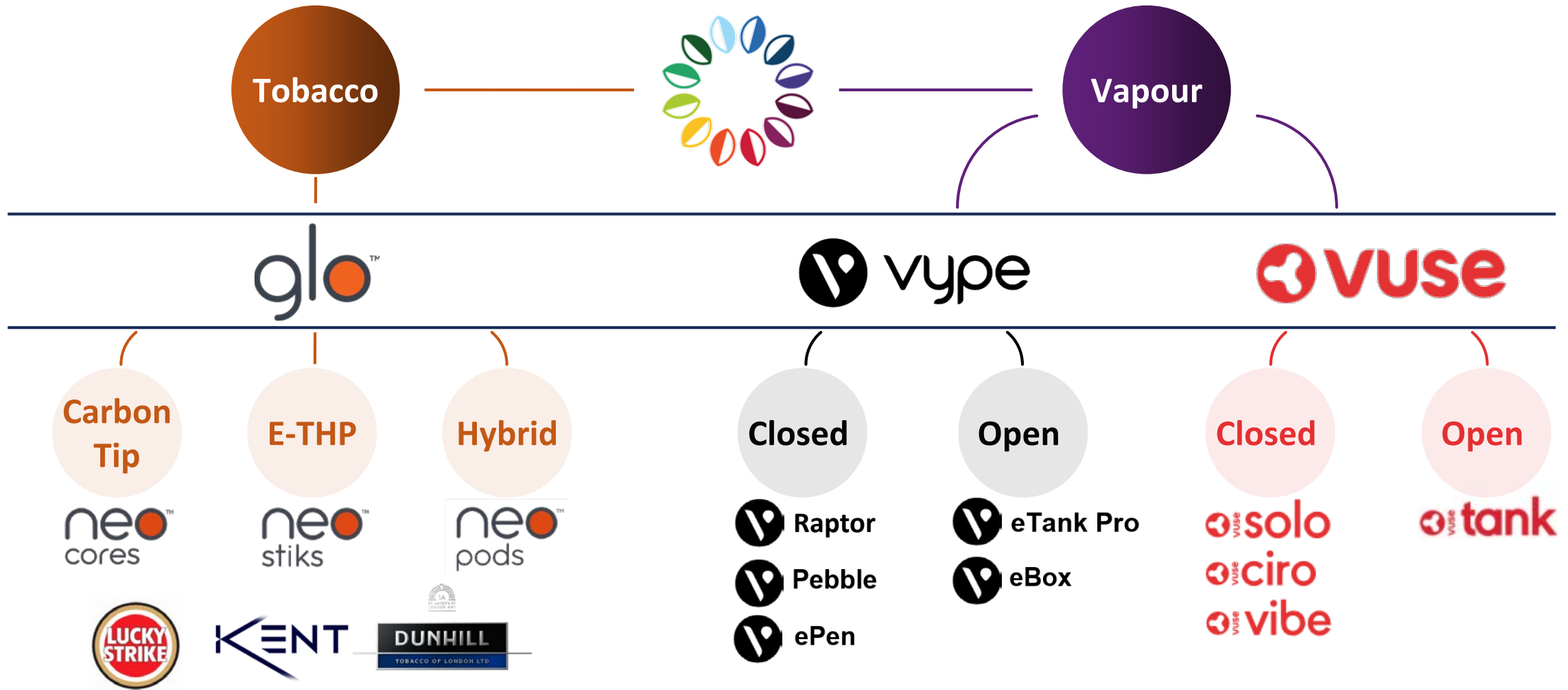


NGP Category  
by 2020

~£30BN

Industry  
CPTO

# NGP Portfolio Ecosystem

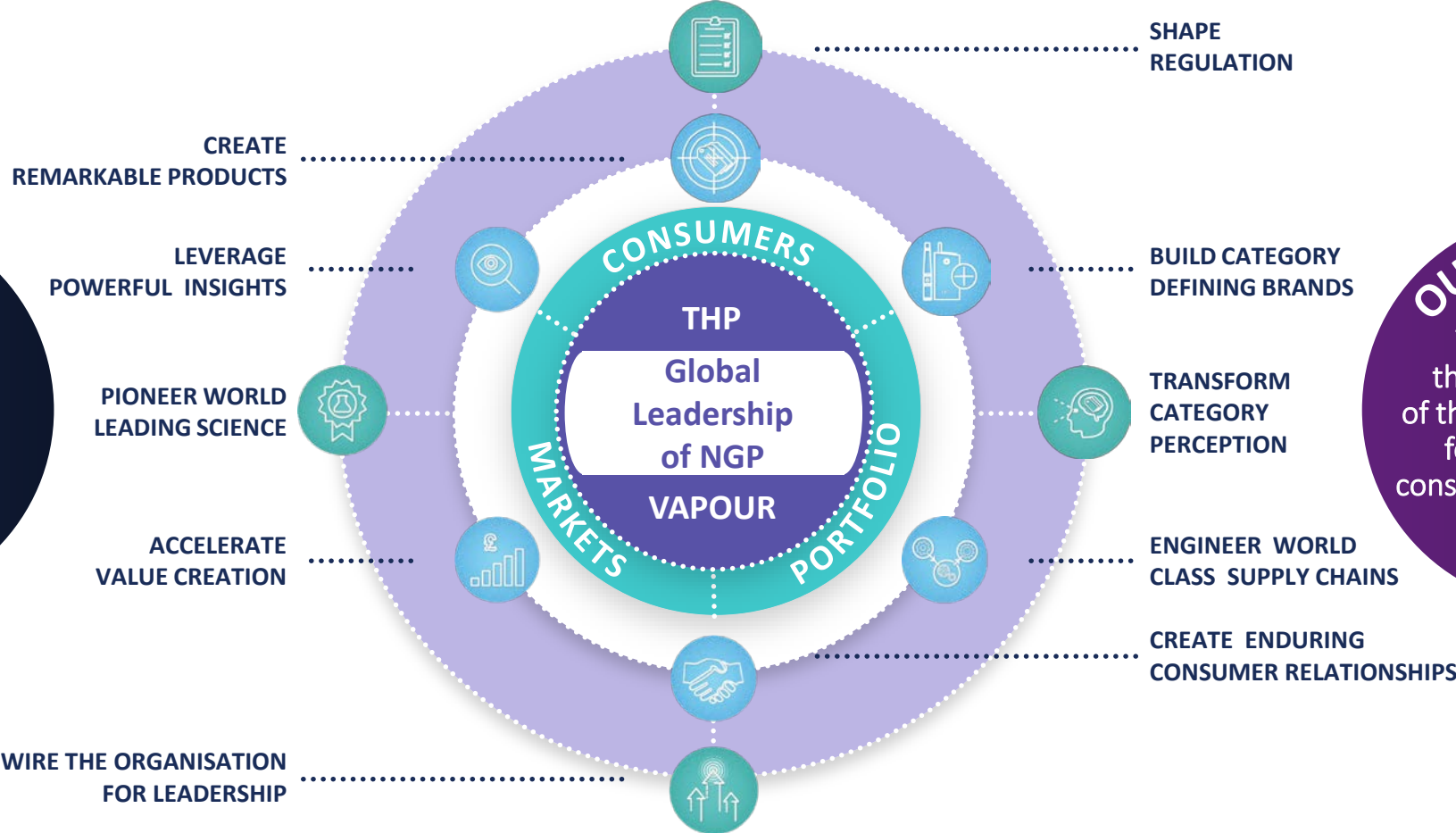


# A Multi-Category Strategy For Leadership

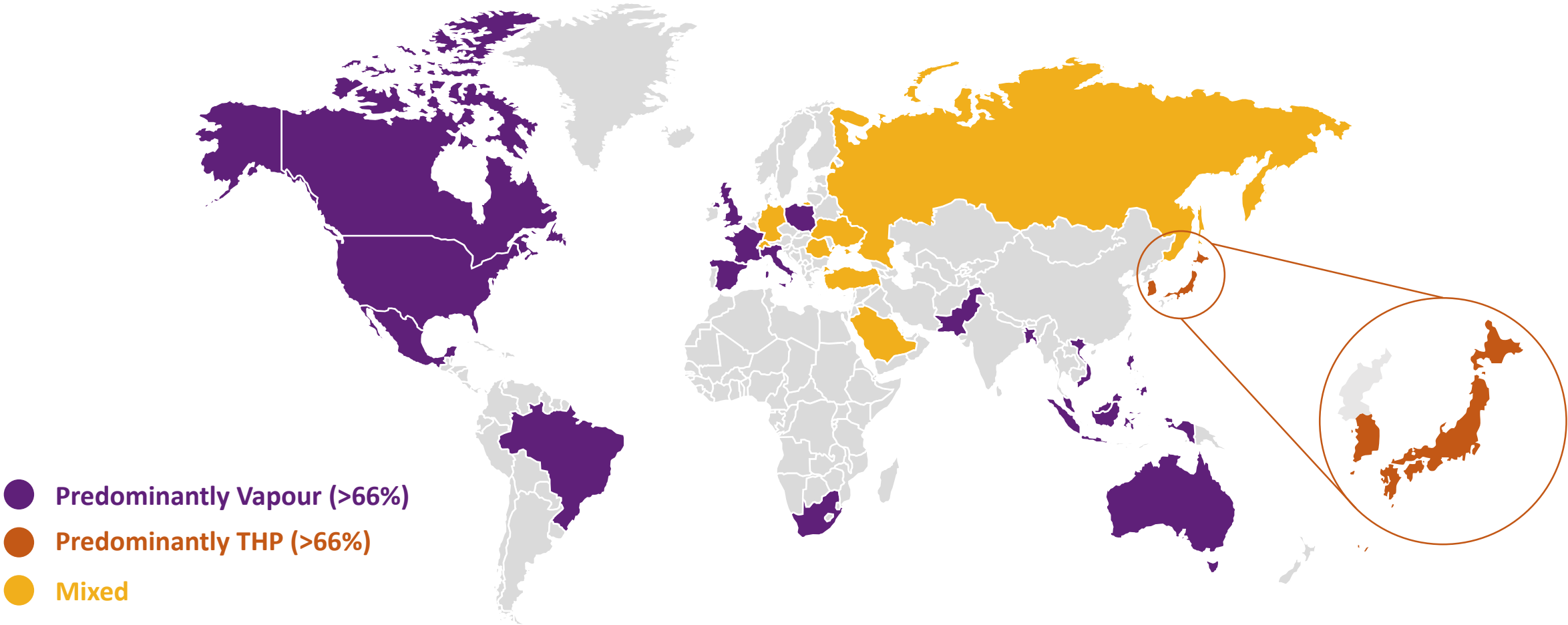


**OUR VISION:**  
To be the world's best at satisfying consumer moments in Next Generation Products.

**OUR PURPOSE:**  
To globally lead the transformation of the tobacco industry, for the benefit of consumers, shareholders and society.

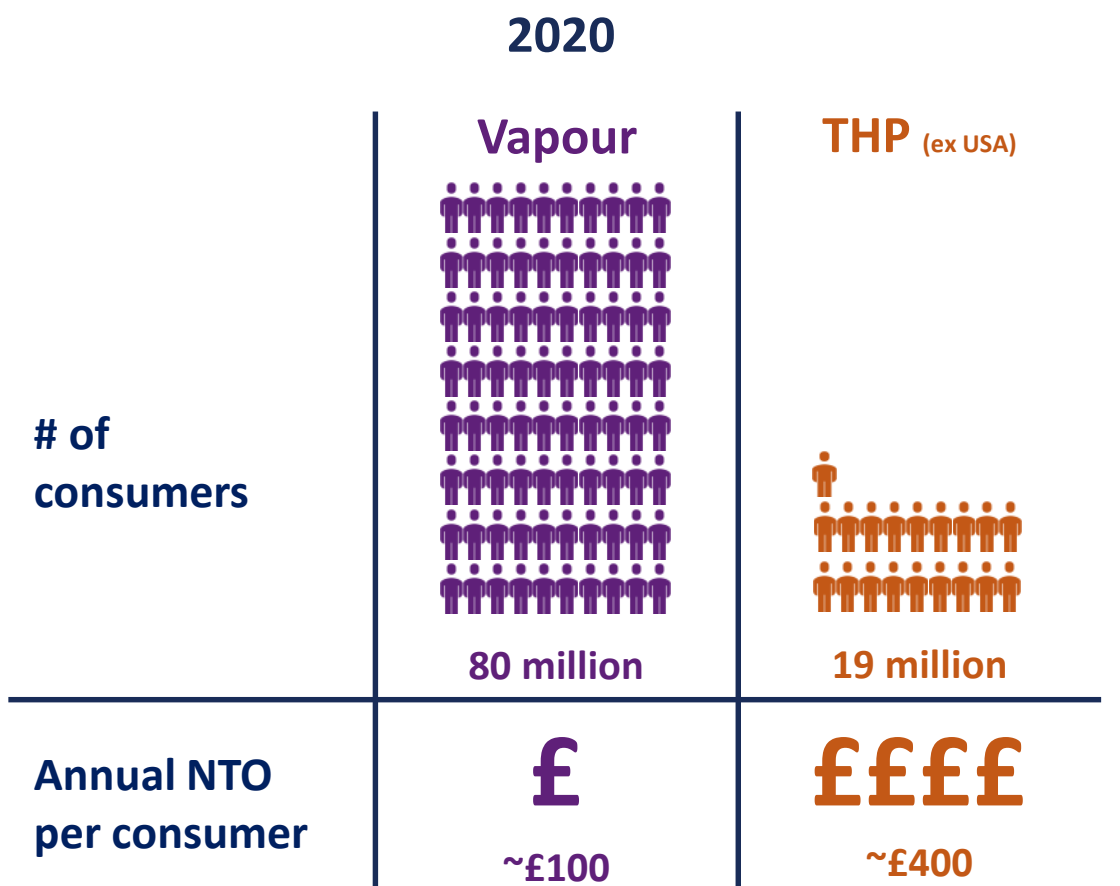


# Modelled NGP Preponderance By 2020

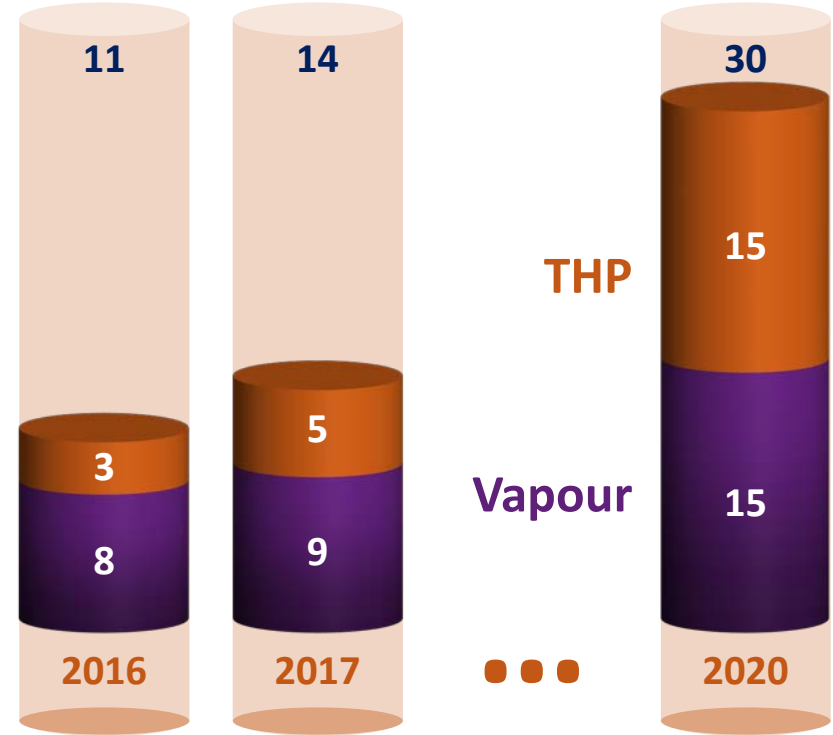




# A Significant and Growing Marketplace

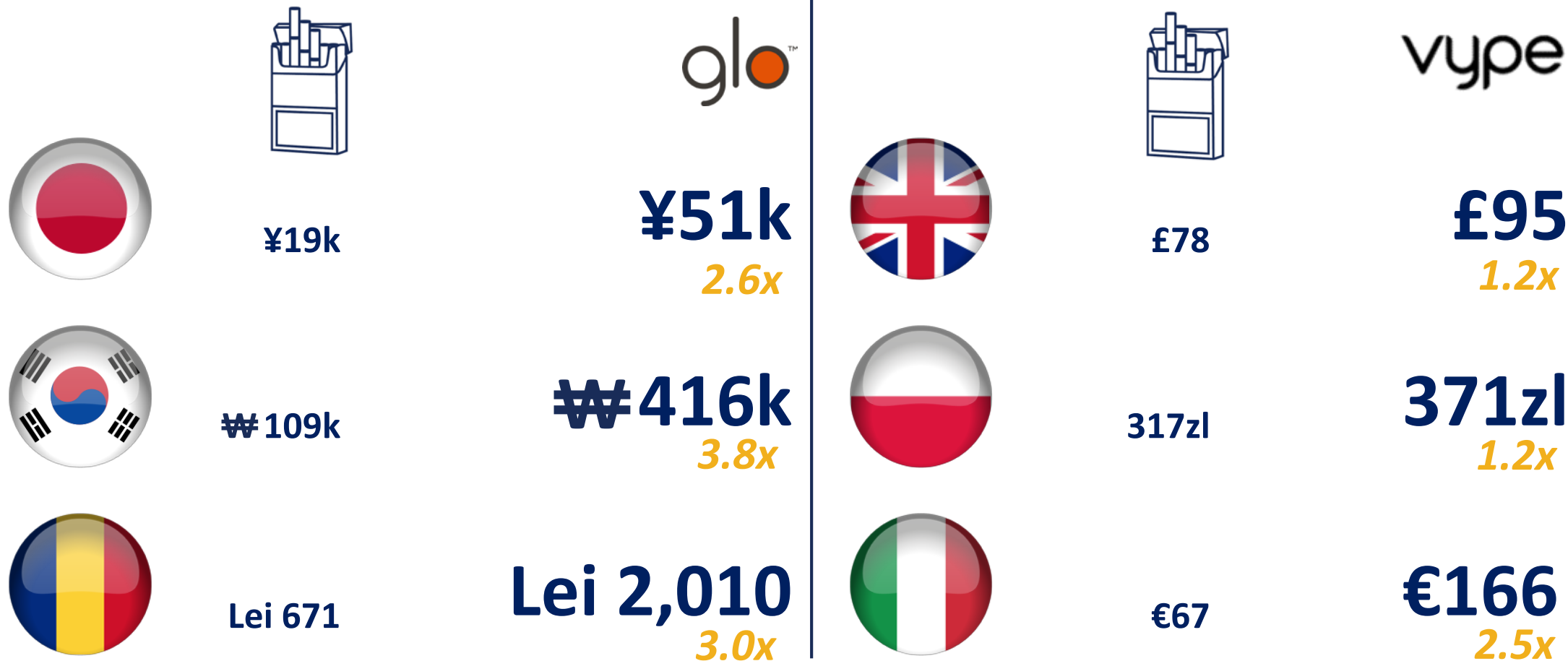


2020 NGP Industry CPTO (£bn)  
Including USA Vapour



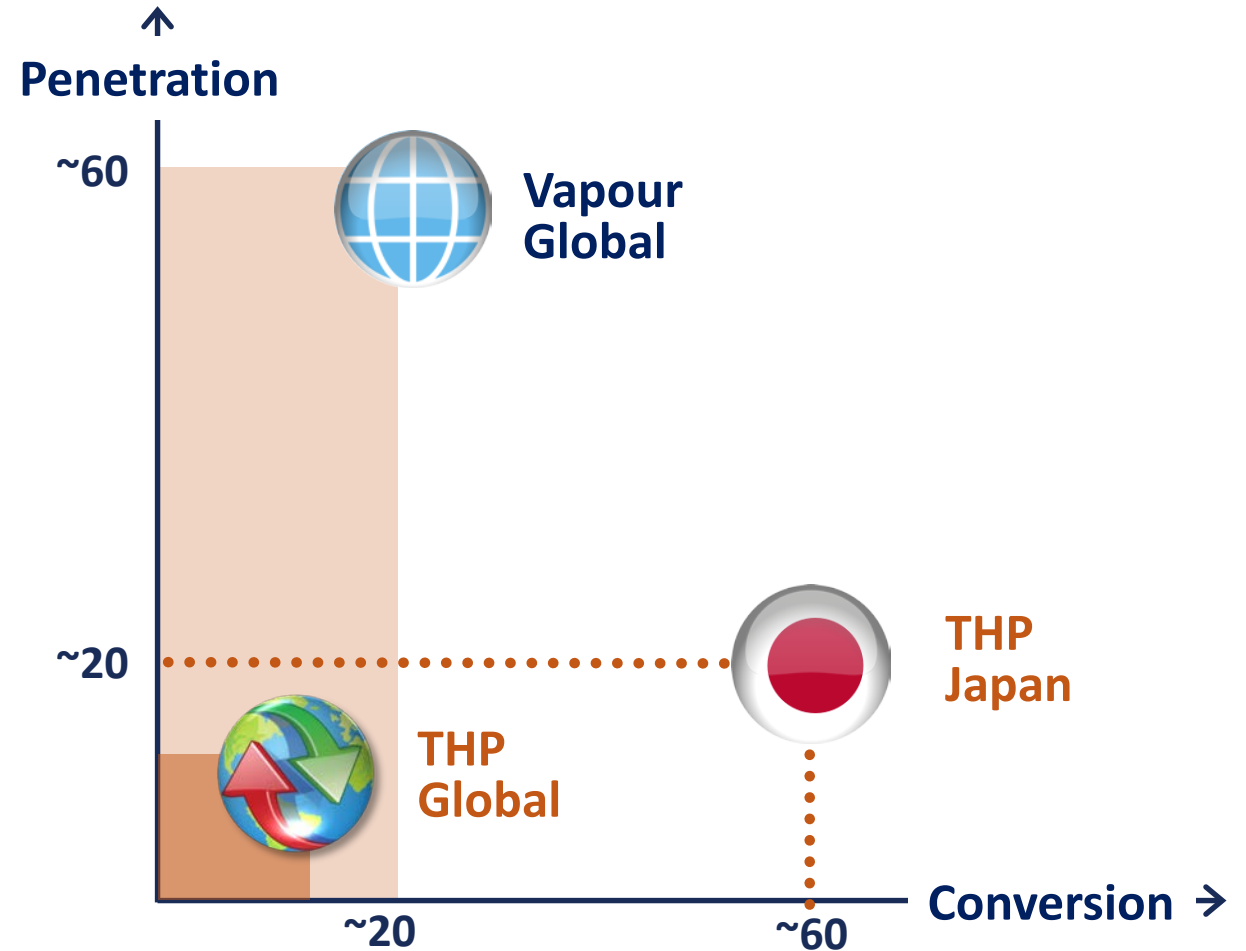
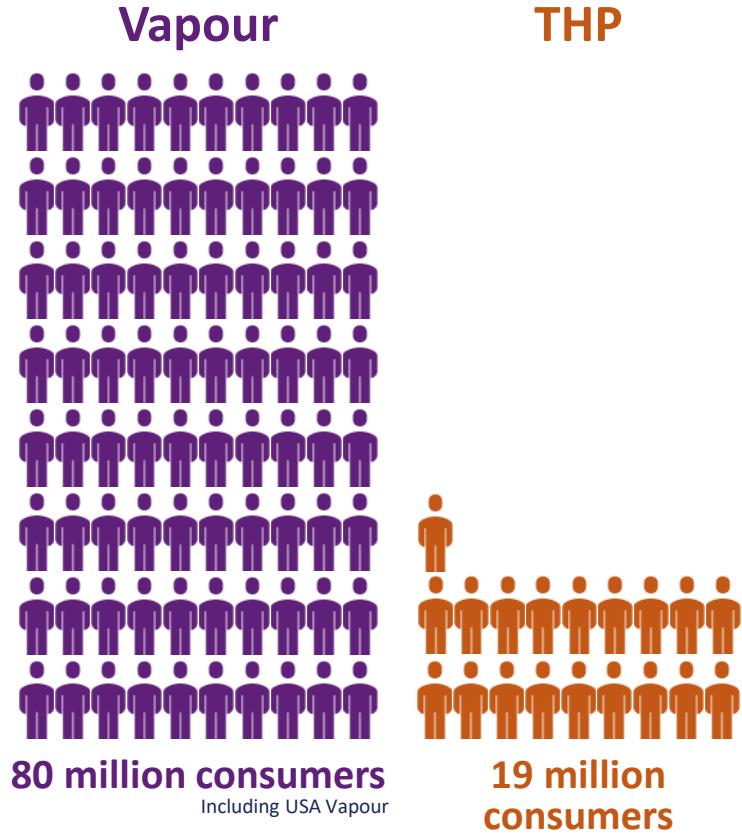
Source: Internal Market Model

# Excellent Margin Opportunities



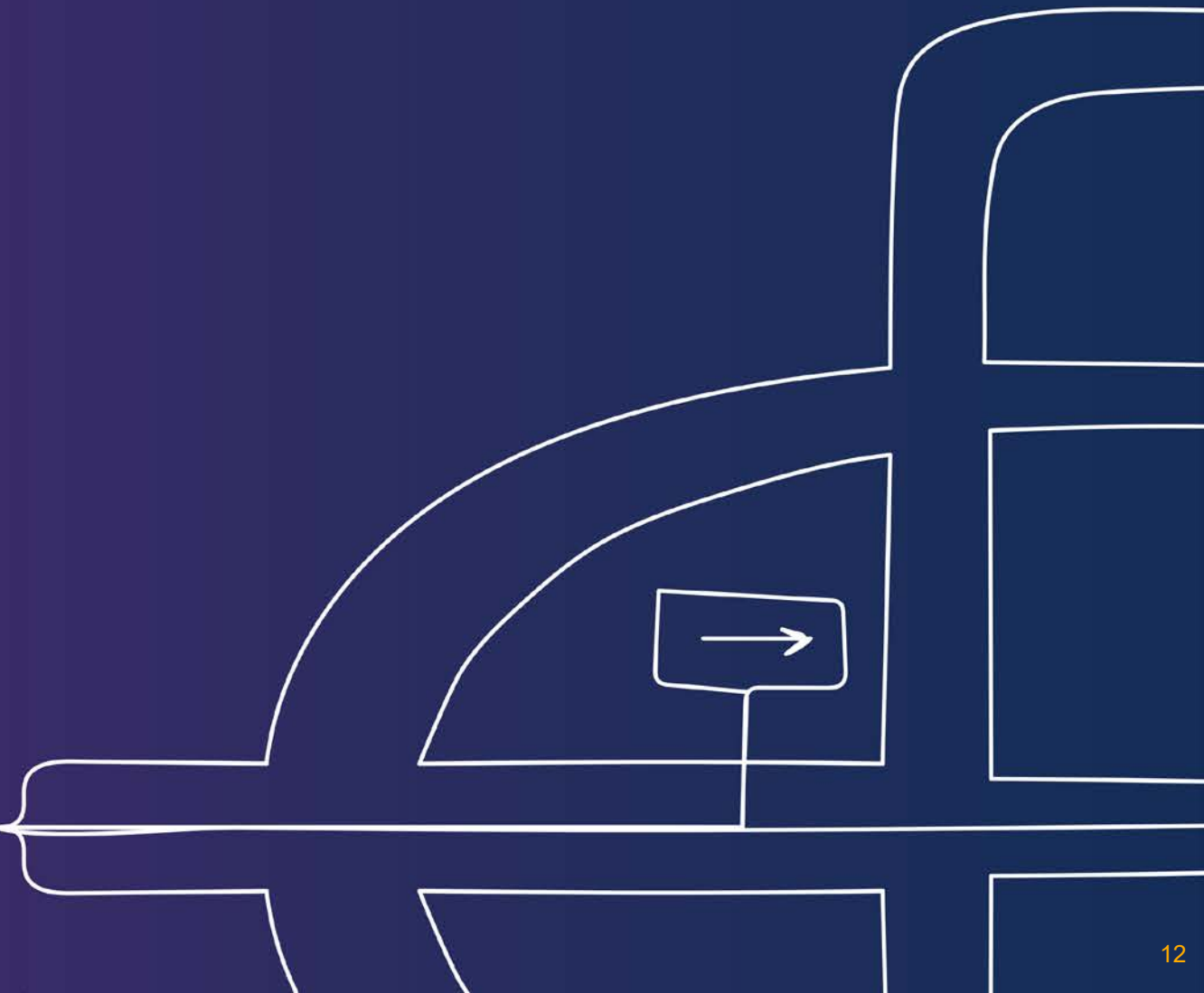
Based on average annual individual consumption. Sources: Vype online consumer surveys; Glo estimated based on Japan online consumer survey

# Vapour and THP: Differing Conversion/Penetration Levels



BAT Internal Market Survey 2017

# Pipeline and Capabilities



# A Clear 5 Year Pipeline for Tobacco Heating

2017

2018

2019

2020

2020+

glo™

gen 1/2



gen 2



gen 3



glo™  
Hybrid

gen 1



gen 2



gen 3



# A Clear 5 Year Pipeline for Vapour

2017

2018

2019

2020

2020+



gen 2



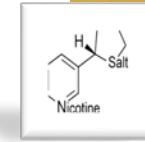
gen 3



POWERED BY DVTECH



vpro



gen 4



gen 1 / gen 2



Gen 3



2020 PMTA Submission  
2021 MRTP Submission



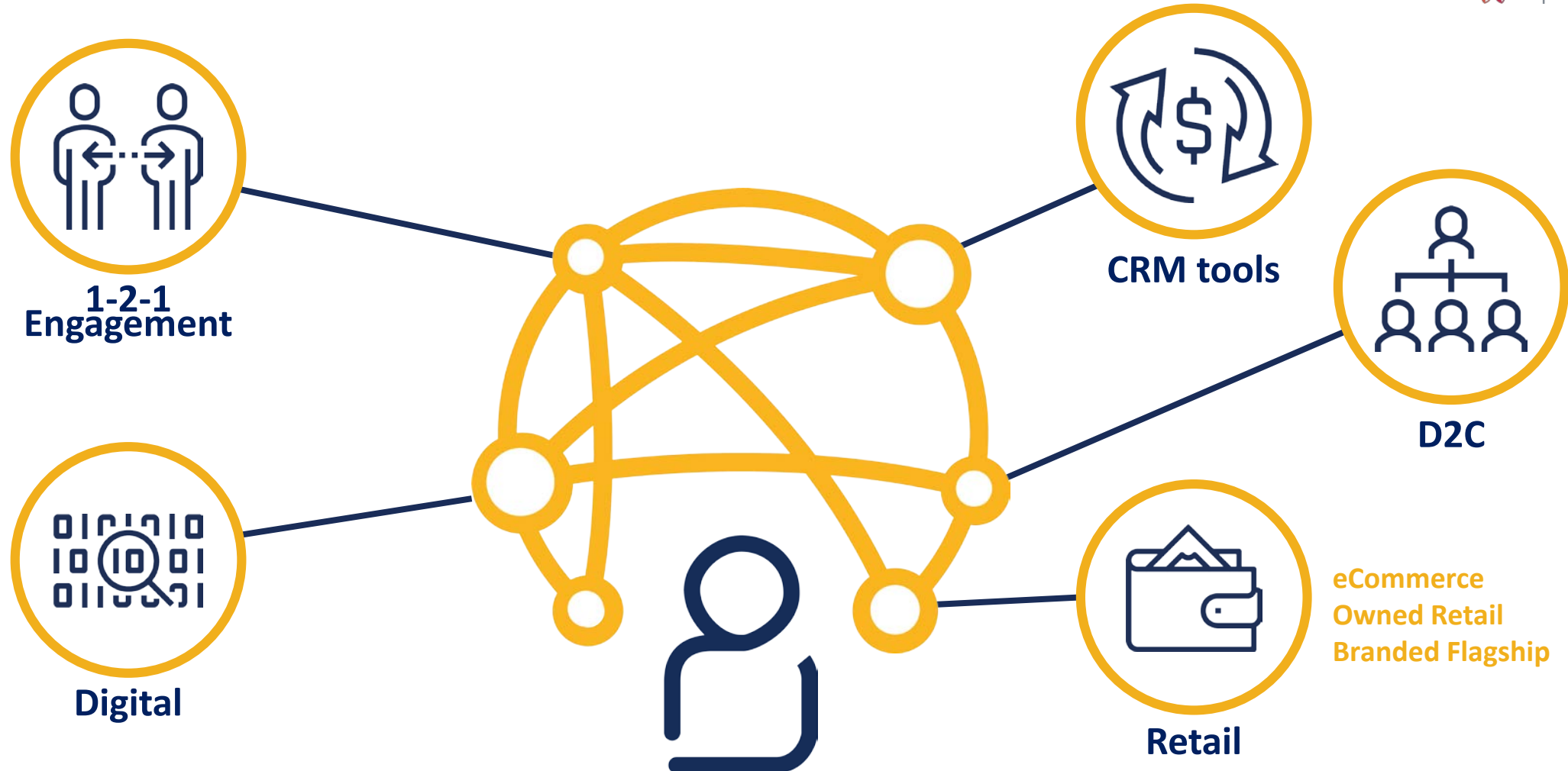
2020 PMTA Submission

gen 4



2021 PMTA/MRTP Submission

# New Routes to Consumer to Drive Penetration & Conversion



Subject to permissibility under local laws



# Building & Mastering a Complex Global Supply Chain

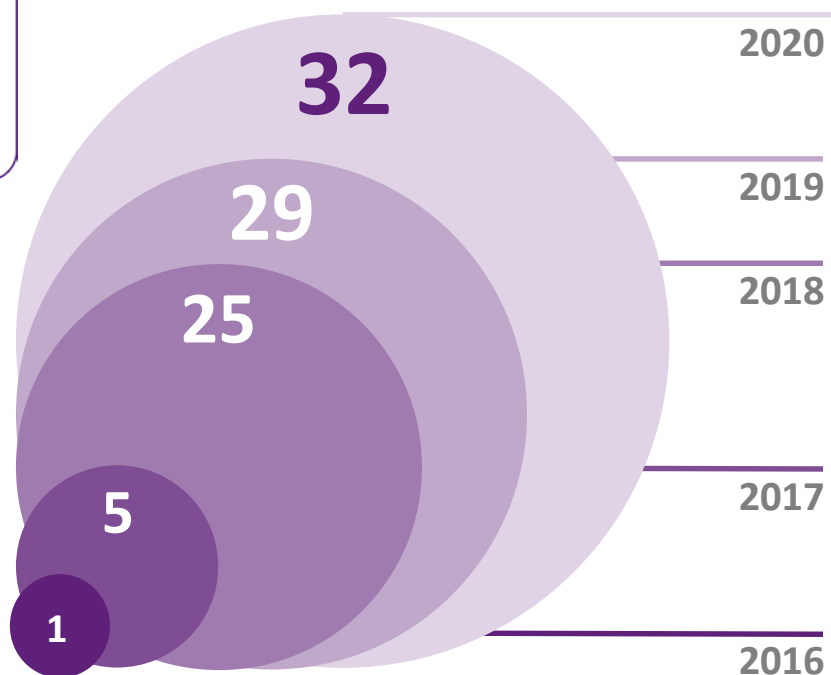




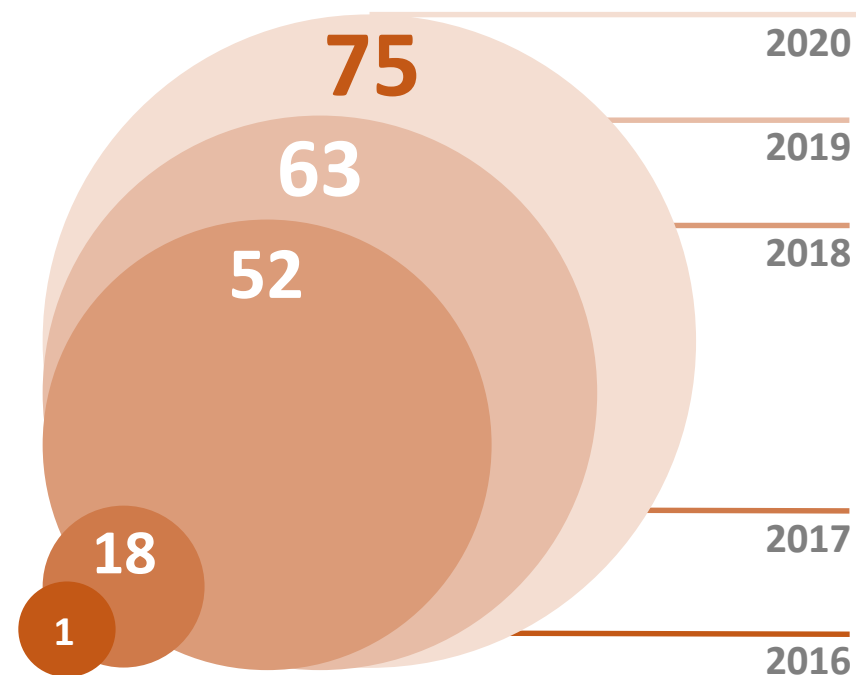
# Substantial Investment In Capacity



**glo Device Capacity**  
YEAR END IN MILLION UNITS



**glo Consumables Capacity**  
YEAR END IN BILLION STICKS



**AGILE & RESPONSIVE:**

Additional Consumables ~9 months  
Additional Devices 4-6 months

As per internal plan

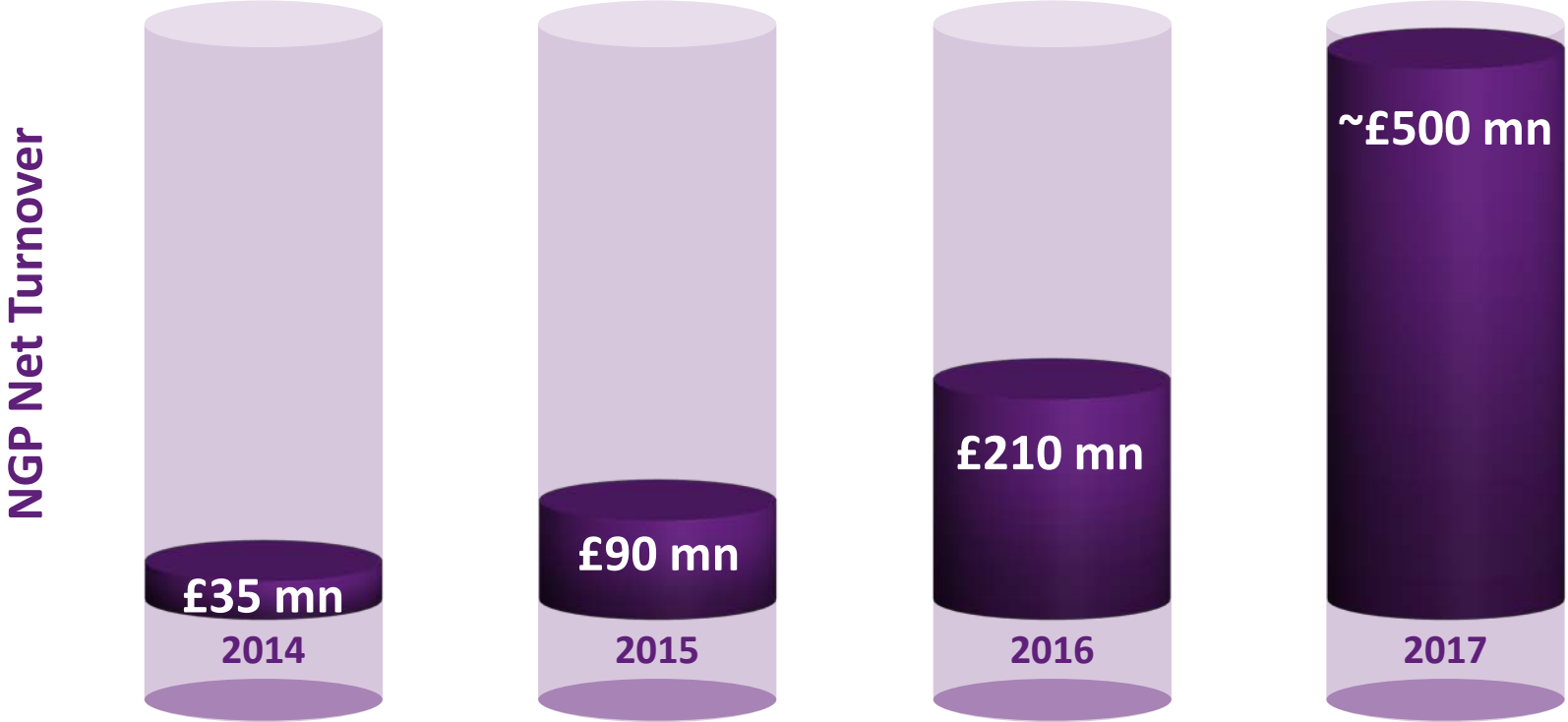
# Performance



# Active NGP Footprint in 17 Markets

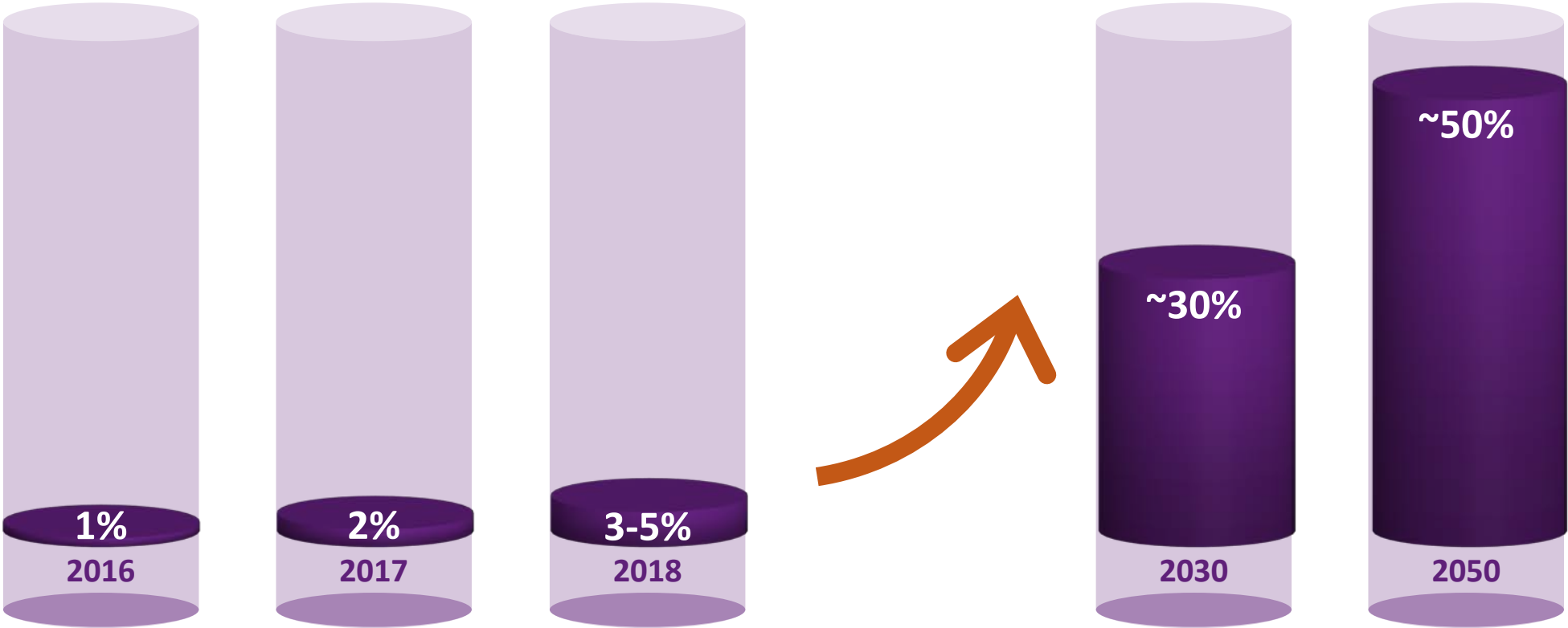


# Driving Exponential NGP Revenue Growth



Including Reynolds. Pro Forma At Current Rates in £m 2017 based on latest estimates

# Our Objective: NGP ~30% Of BAT Revenue By 2030



# Tobacco Heating Products



# glo™

**THP**



**Hybrid**



**CarbonTip**





Dec.12<sup>th</sup> 2016



Today





# glo Product Has **Unique** Competitive Strengths



**Consecutive Sessions**



**Flavour Variants**



**Convenient & Intuitive**



**Pleasant Smell**



**Durable & High Quality**



**Taste Profile**



**Hygiene & Cleanliness**



**Authentic Tobacco**

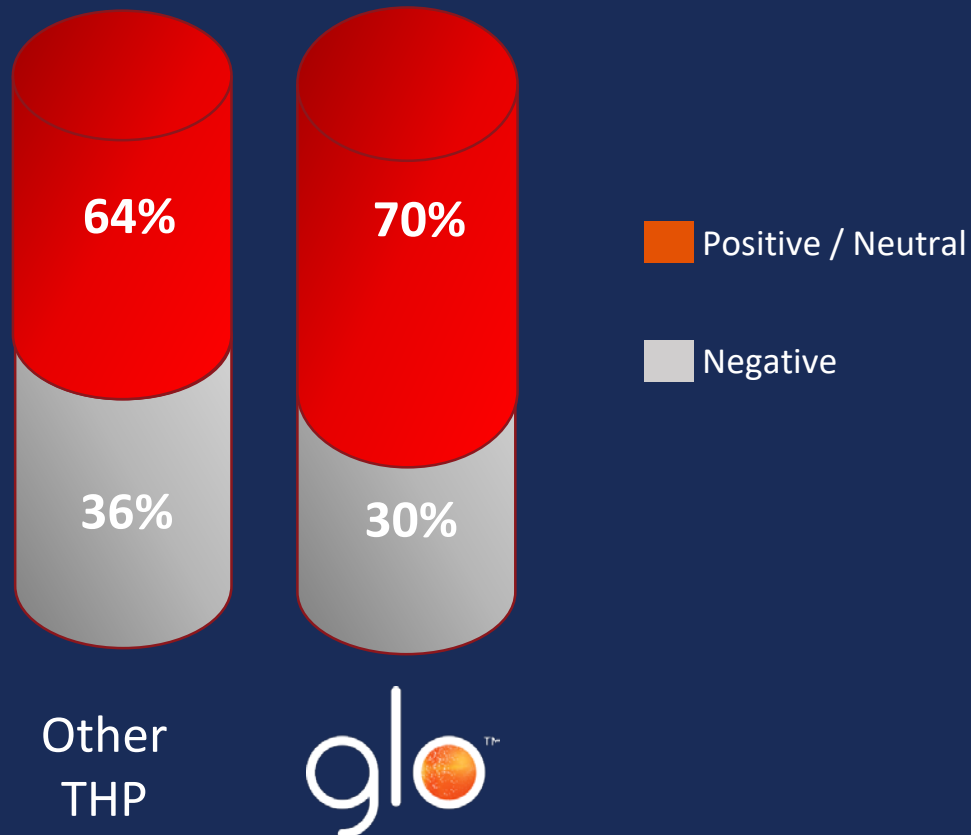


Source : Product encounter sessions + Brand Tracker / BLM + social media listening

# Consumers are Responding Very Positively to glo



## Social Media Sentiments



## Trial Intention among THP Aware Consumers



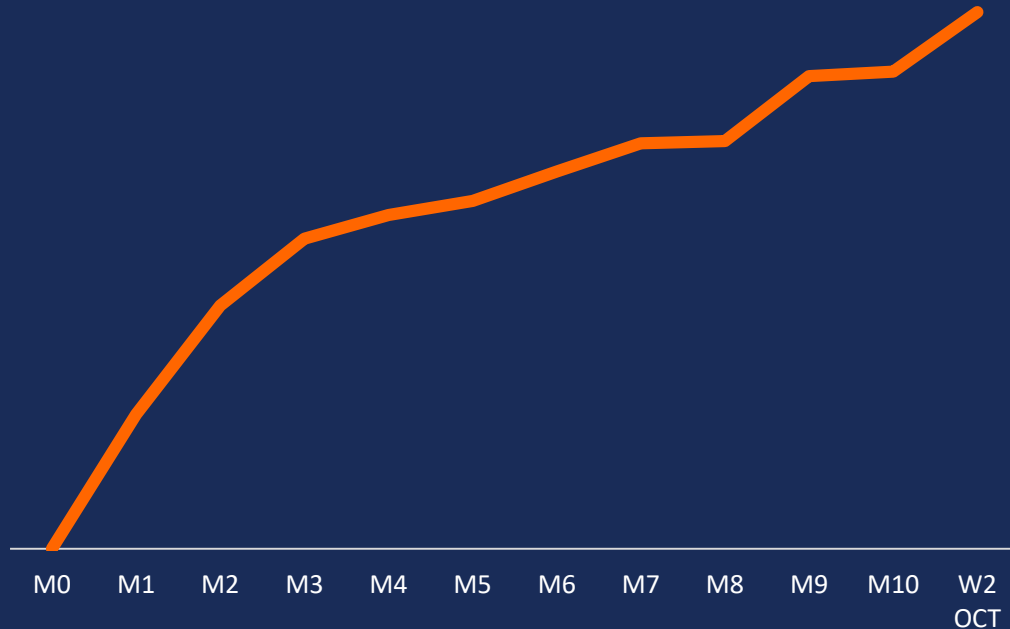
Source : Brand Launch Monitors  
Source : Social Media Listening – August - Sept average 2017

# Very Strong Share Momentum In Japan

## SENDAI

Share of Segment **~35%**

Share of Market **10.4%**

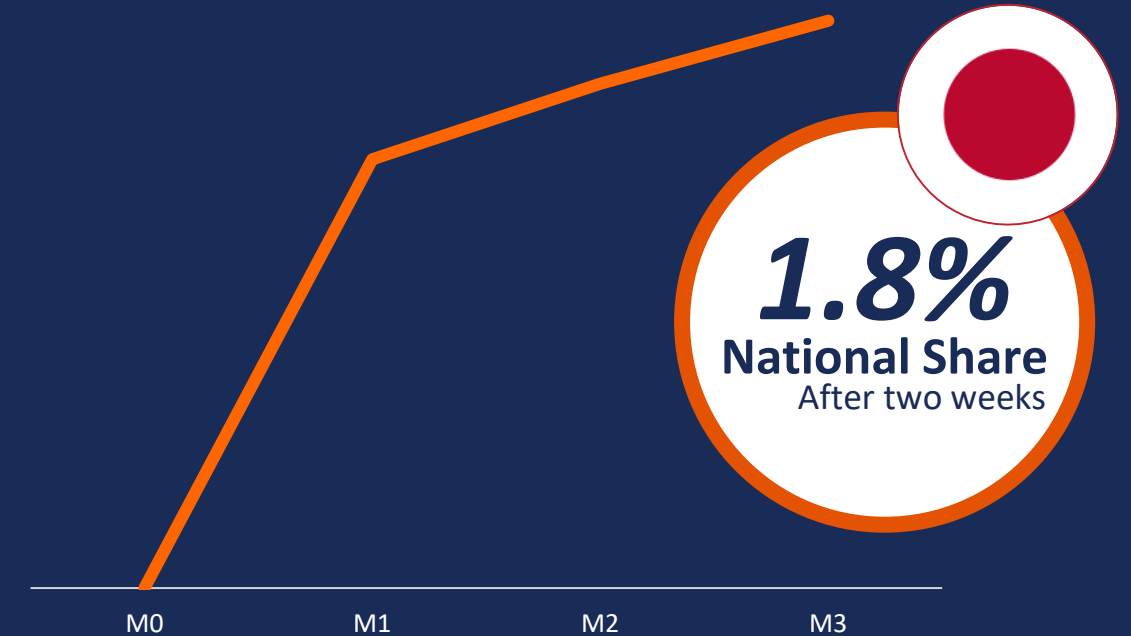


Source: CVS-B off-take share

## GeoX – Phase 2

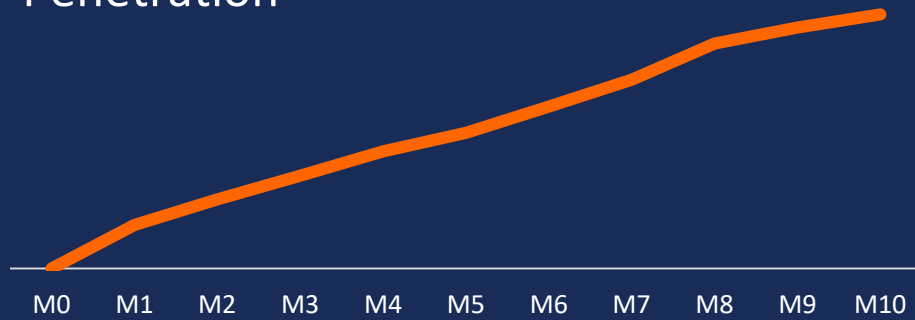
Share of Segment **~20%**

Share of Market **4.4%**



# Strong Conversion to Regular Usage

## SENDAI Penetration

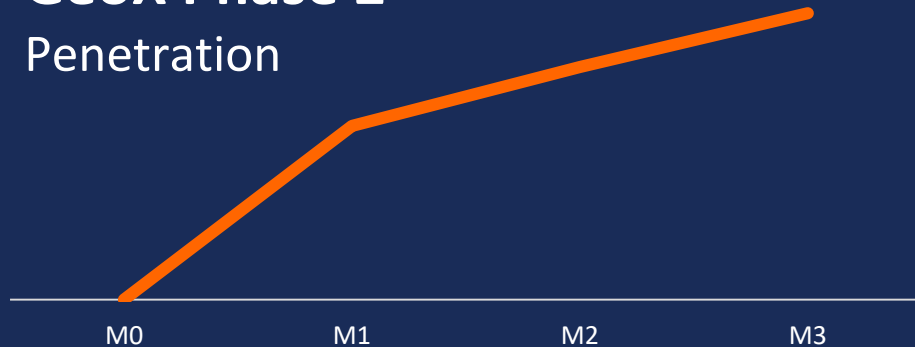


**45.7%**

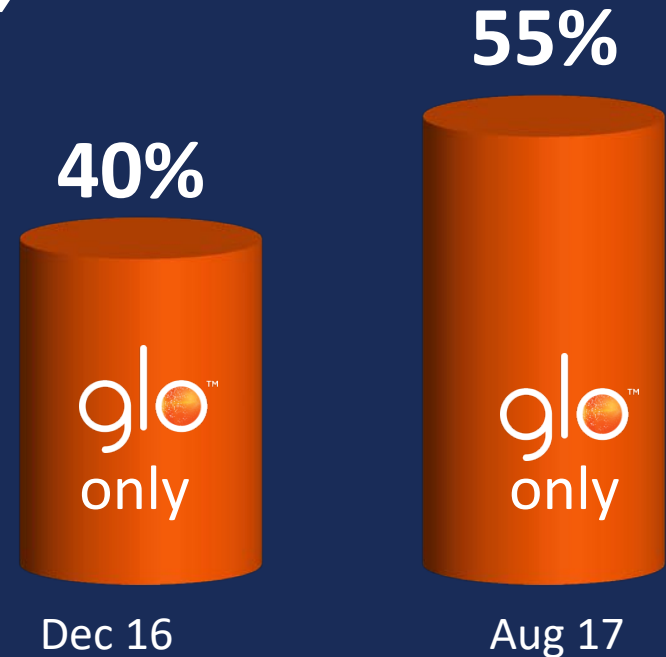


% SOLUS in SENDAI franchise

## GeoX Phase 2 Penetration

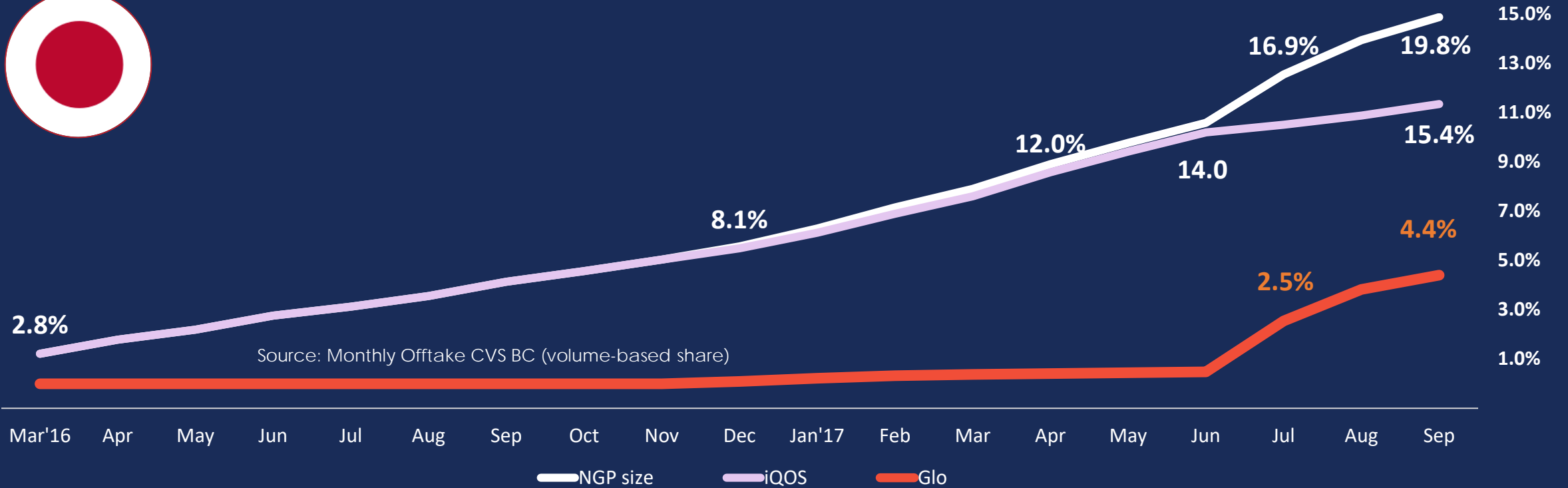


**18.7%**



Source: T Point Loyalty card purchase data

# 3 Prefectures : Glo is Driving the Category Dynamics

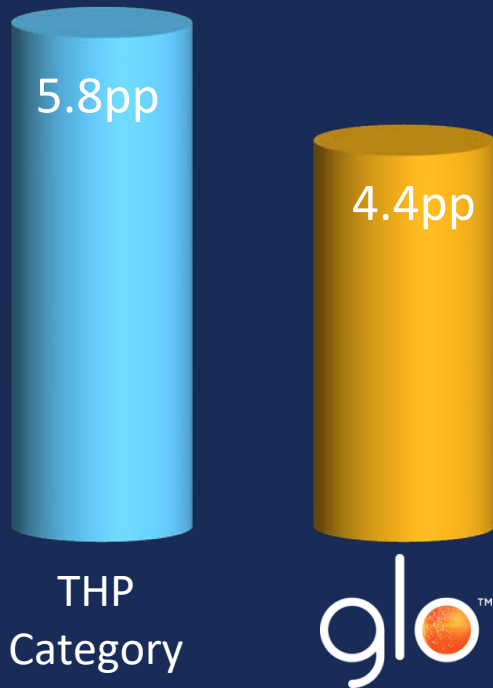


# glo is Driving the Category Dynamics



## Share Growth : 3 Prefectures

(Jun 17 to Sep 17)



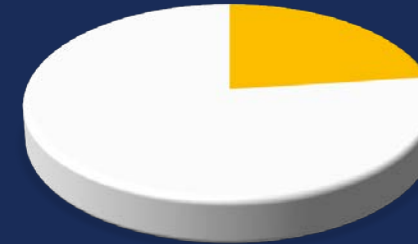
**>75%**

of Category Growth

Source: CVS-B offtake share

## glo Source of Business

**23%**



**Q1 17**  
(Sendai)

■ FMC Sourcing

**31%**



**Q3 17**  
(3-Prefectures)

■ THP Category Sourcing

Source: Loyalty card purchase data

# Very Strong Start in South Korea

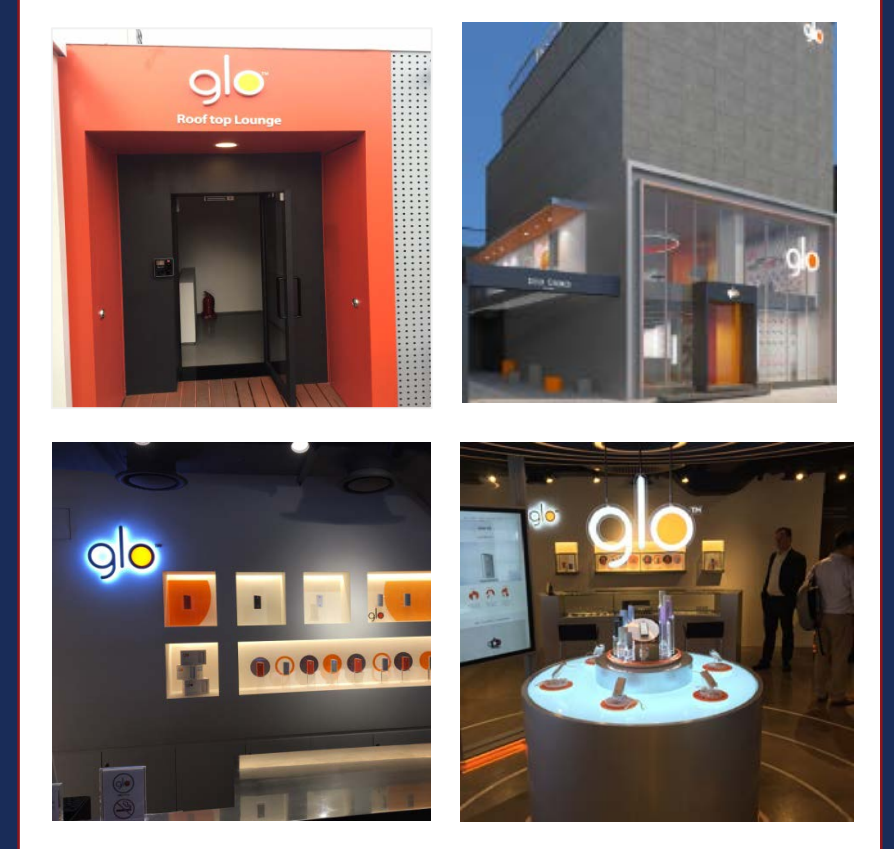
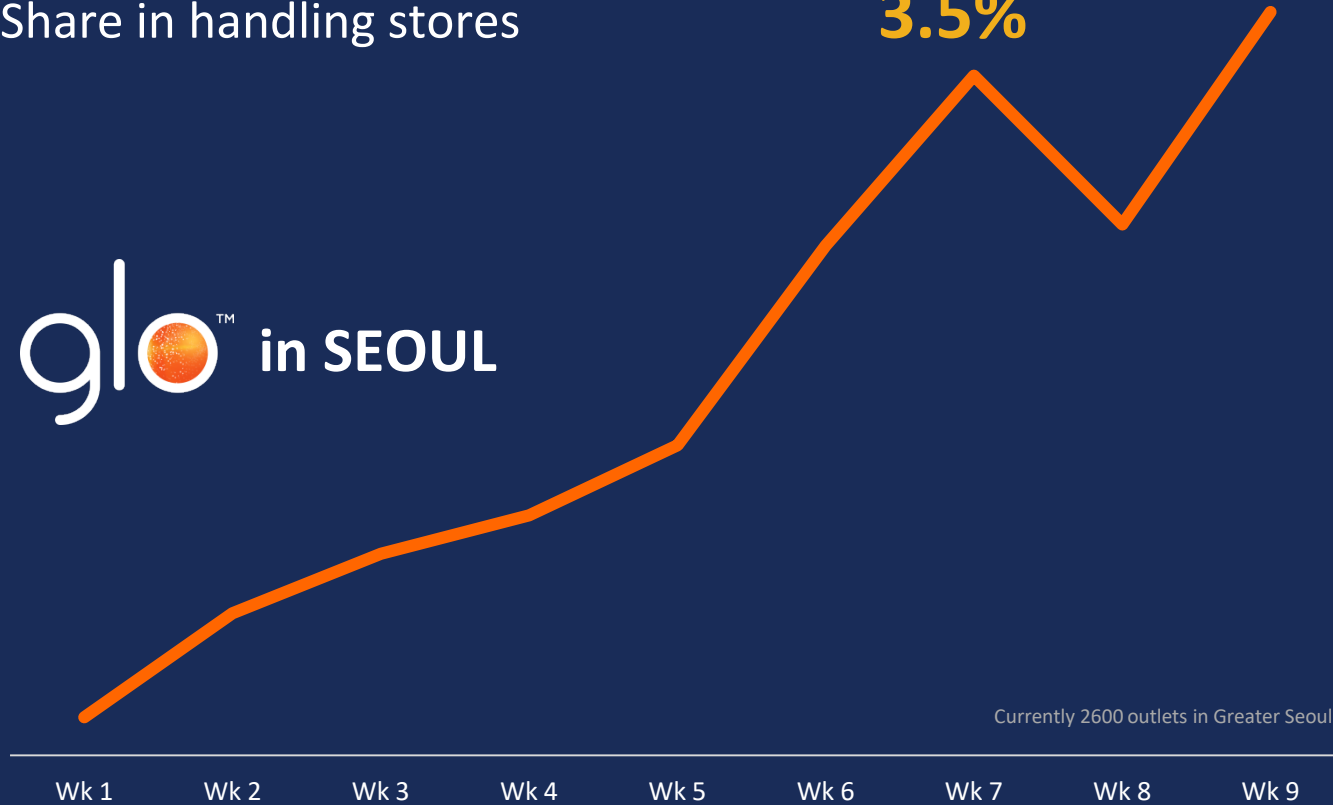
Share of Segment in handling stores

~40%

Share in handling stores

3.5%

glo™ in SEOUL



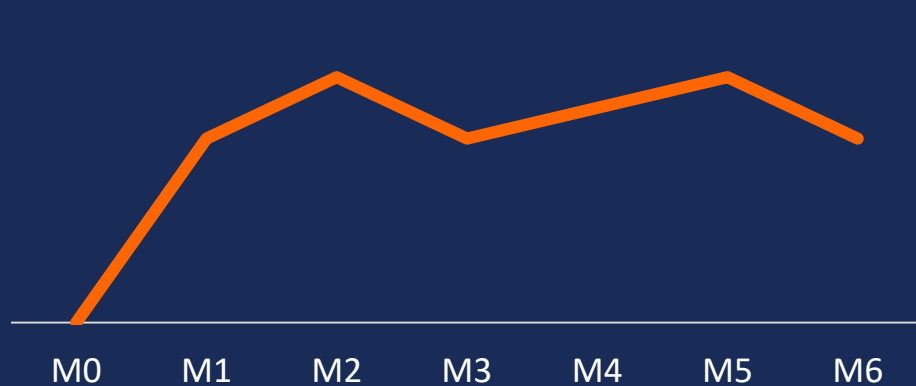
Source : KA channel POS

# Testing and Learning in New Market Places



## SWITZERLAND

Share in Handlers **0.06%**

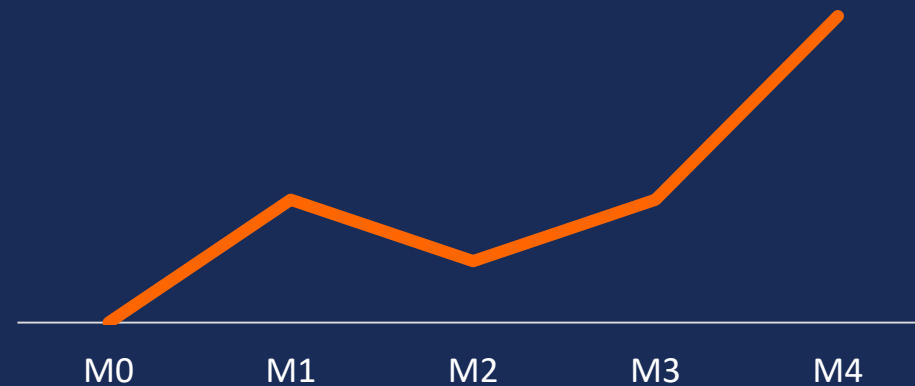


Source: Off-take share in handling KA stores



## CANADA (Great Vancouver Area)

Share of Segment **> 60%**  
Share in Handlers **0.11%**



Source: Nielsen RA in GVA



# Market Roll Out



2017

2018



JAPAN



CANADA



S KOREA



RUSSIA



SWITZERLAND

**+16**

**NEW  
MARKETS**

# Coming Soon



# Constant Evolution to Meet Consumer Needs



Flavours



New Blending Technologies



Capsules

Satisfaction



Sensation

# glo™

**THP**



**Hybrid**



**CarbonTip**



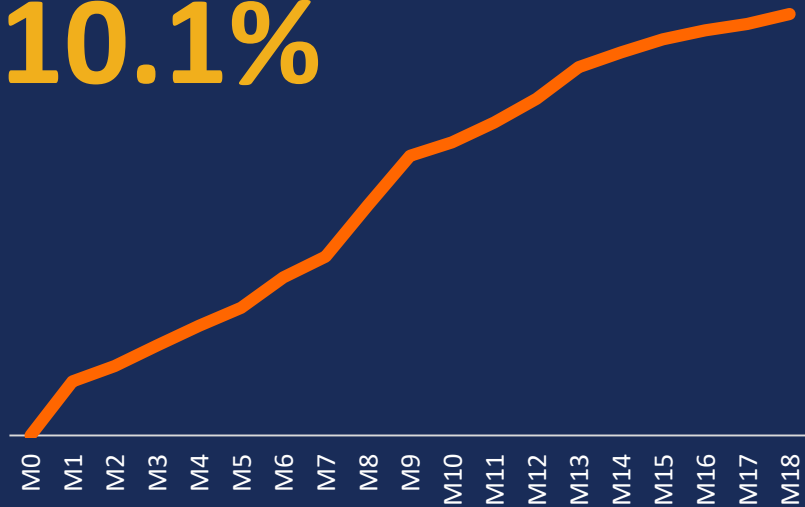
# Romania iFuse: Trial Generation Confirms Hybrid Interest



## BUCHAREST

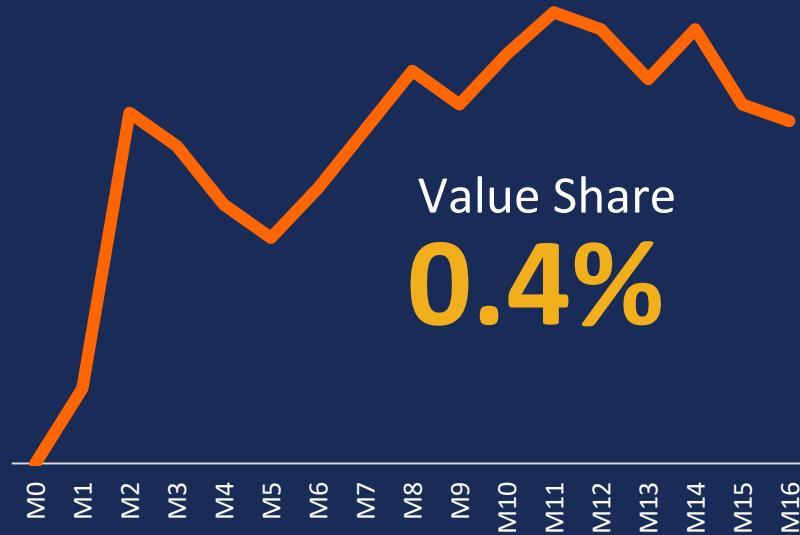
Device Penetration

**10.1%**



Source: Estimations based on cumulative no of devices

Value Share  
**0.4%**



Source: Nielsen panel of handling stores, NTO value share



## Japan Performance

**~75%**  
of Category  
Growth

**>50%**  
Conversion  
to regular

**>60%**  
Trial intention  
among aware

**>10%**  
Share in SENDAI  
in 10 months

## A Powerful Pipeline

**Flavours**

**Capsules**

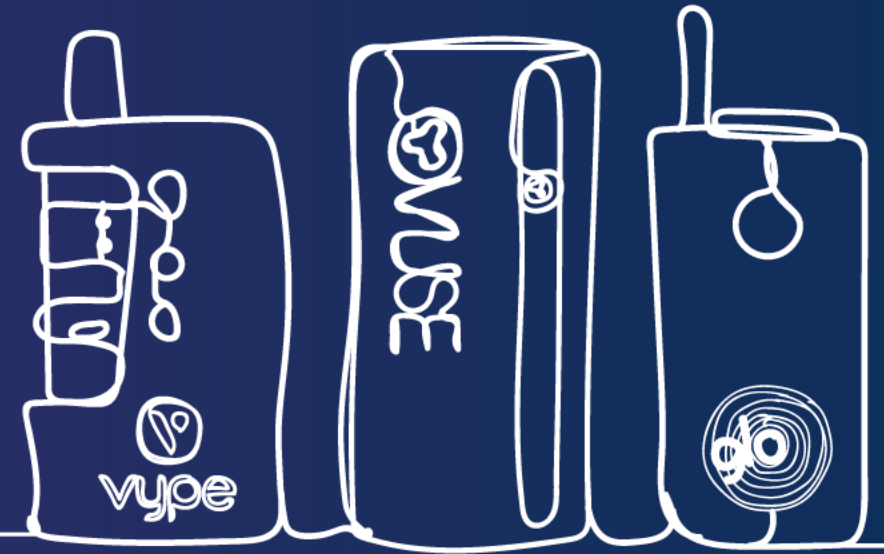
**gloclik™**

**neo™**  
stiks  
pods  
cores

**Hybrid 2.0**

**Carbon Tip**

# The Vapour Opportunity

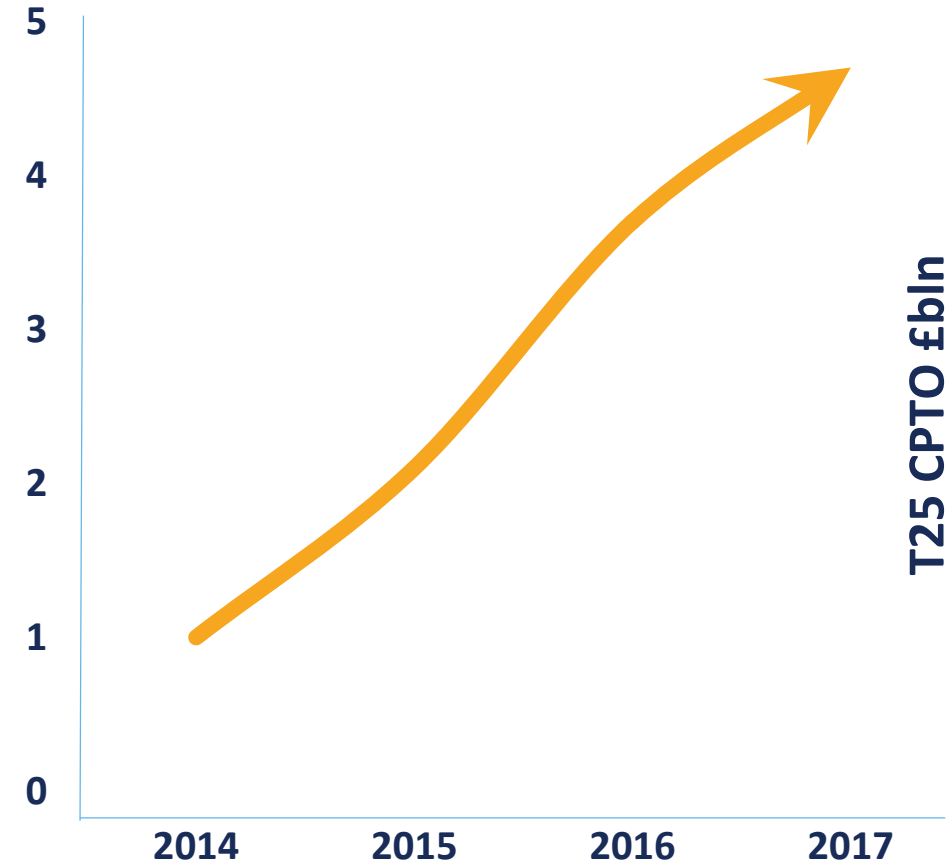


# Vapour In Numbers



**£9Bn** CPTO

**55Mn** vapers today



**#1** market

~£4.5Bn  
22Mn



**#2** market

~£1Bn  
2.8Mn



**#3** market

~£0.7Bn  
2.6Mn



**#4/5**  
market

~£0.6Bn  
3.6Mn




Total Category Size in £bn 2017

Source: BAT estimate



# Vapour is...

## Equivalent to...

 Smart wearables (\$9Bn)

 Cameras (\$8Bn)

## More Than x2...

 Cognac (\$3.5Bn)

 Low/No alcohol beer (\$3.4Bn)

## By 2020 Bigger Than...

 Men's shaving (\$11.5Bn)



**Today, BAT Has More Share In Vapour Than...**



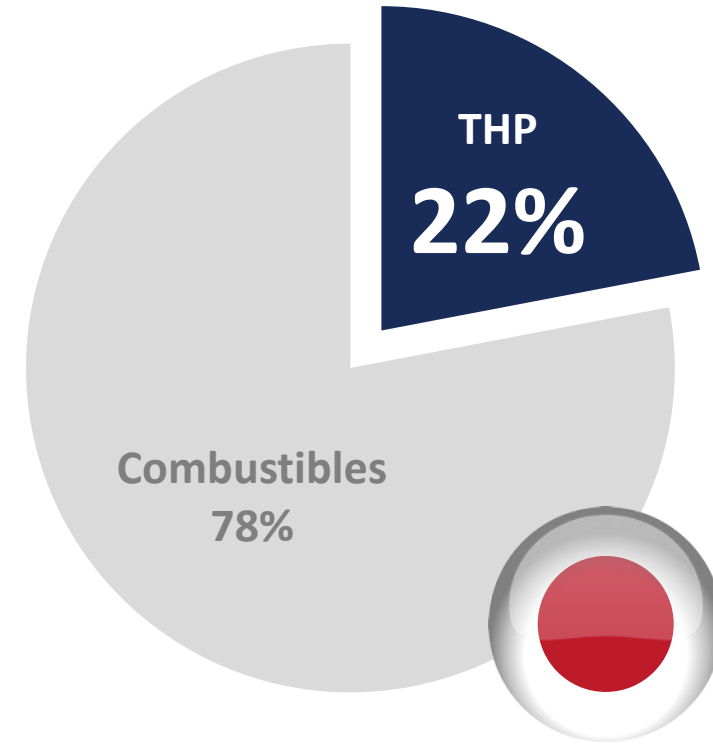
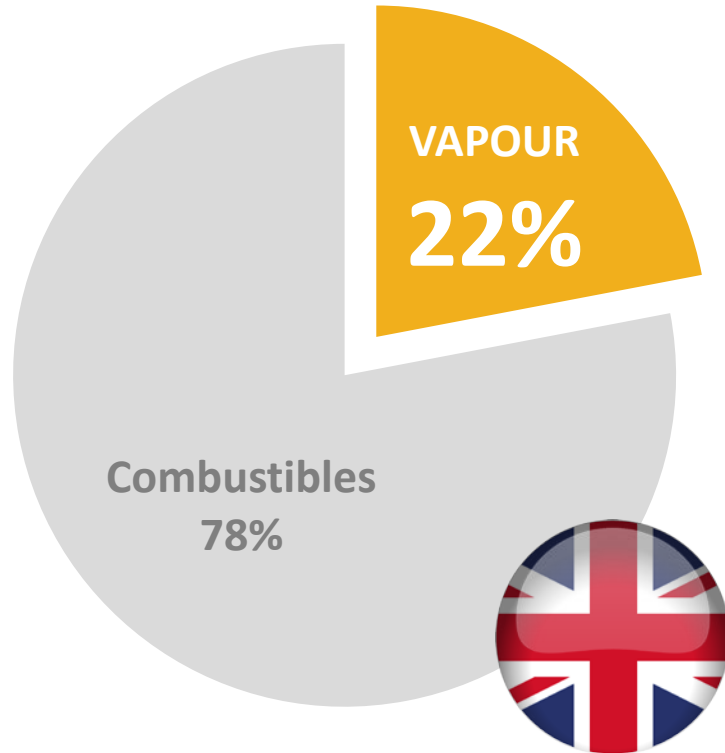
**BMW in Automotive (4%)**



**Yahoo in search (4.7%)**

Sources: Euromonitor, CCS insight / Forbes), Statista, emarketer, global category CPTO, BAT estimate 2017

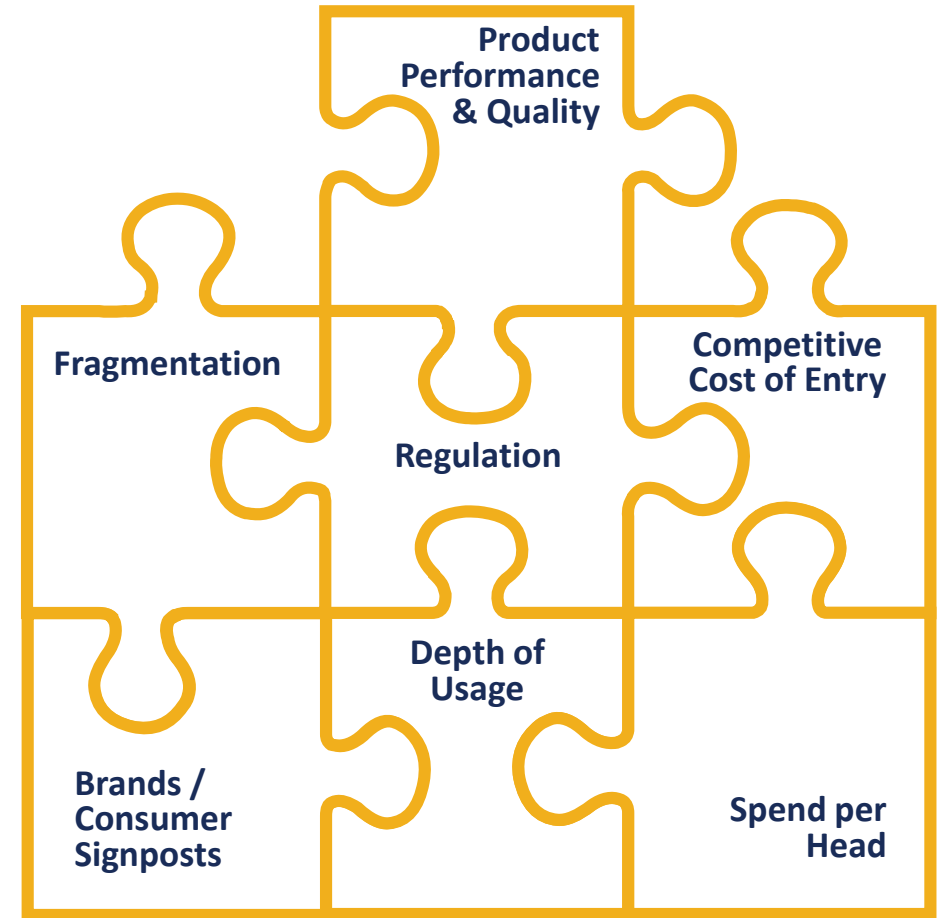
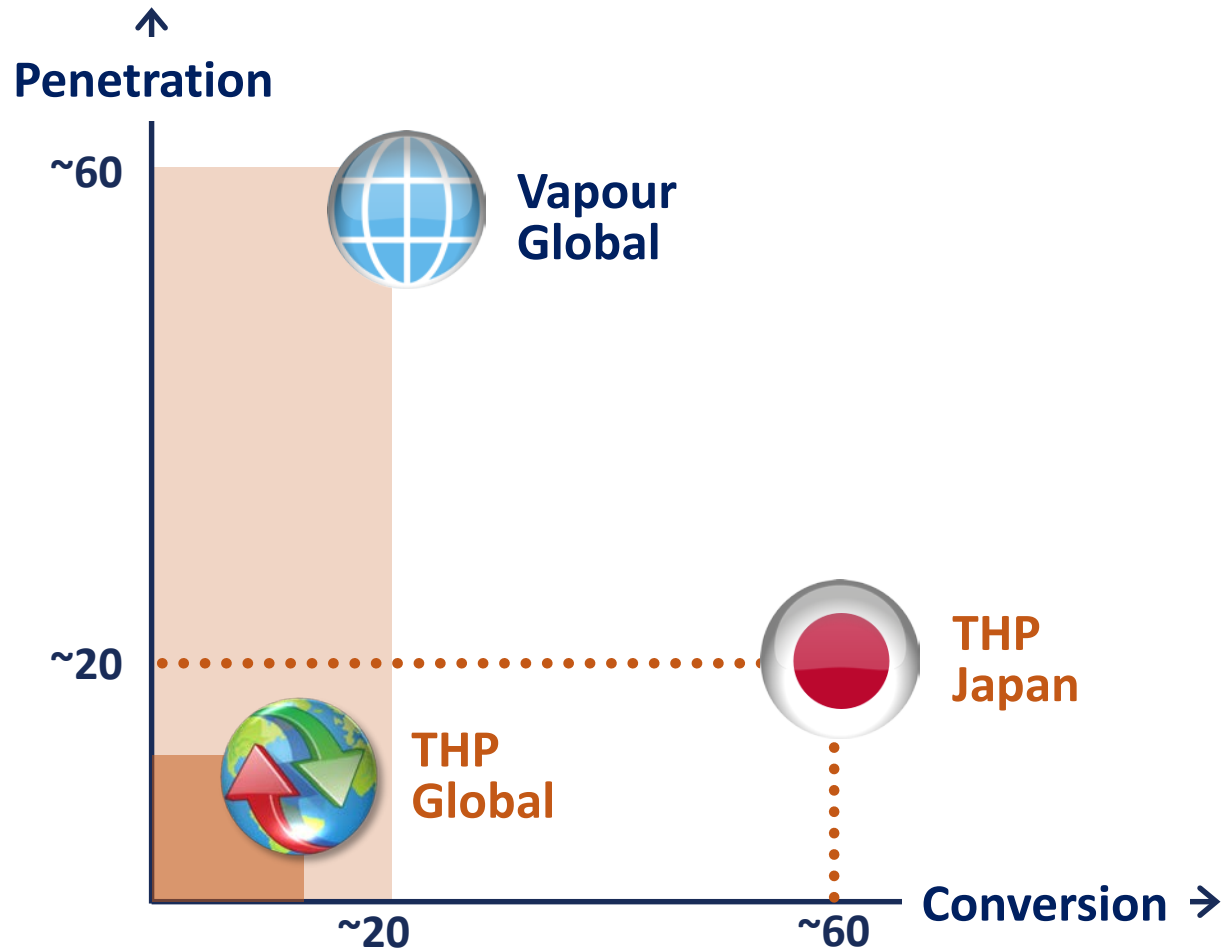
# At Industry NTO Level Vapour UK = THP Japan



SOURCE: KANTAR, CITED IN EY ENDS REPORT, JANUARY 2017

Source: internal estimates

# Cracking the Vapour Business Model is Key



# Vapour Performance





+

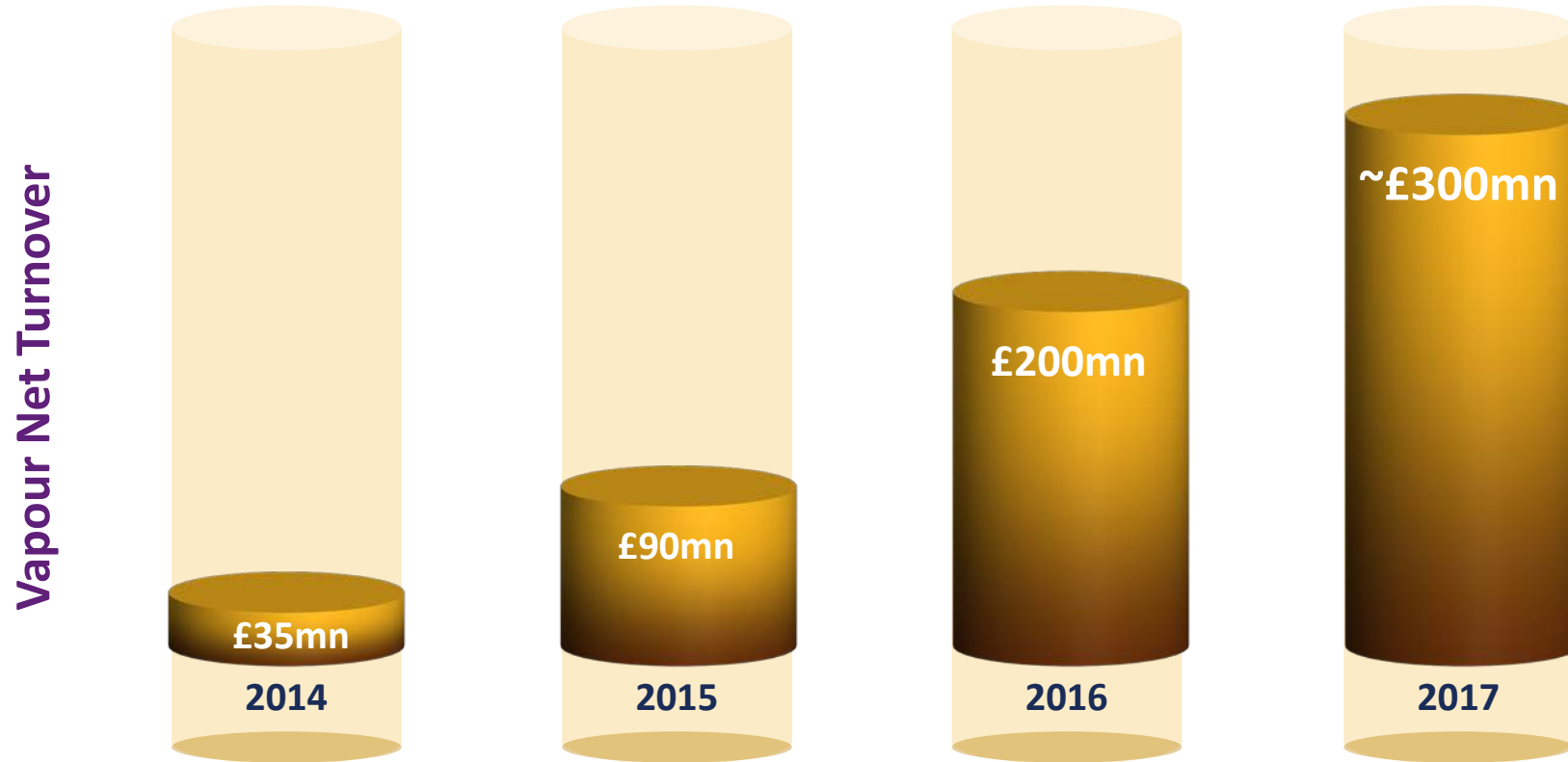
=

~6%  
VALUE  
SHARE

=



# Vapour Revenue is Growing Sequentially



Including Reynolds 2017 Pro Forma. At Current Rates in £m 2017 based on latest estimates

# Vapour Leadership Footprint

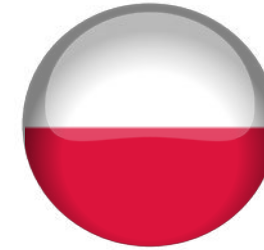
**#1**  
Retail  
Value  
Share



**> 35%**



**~42%**



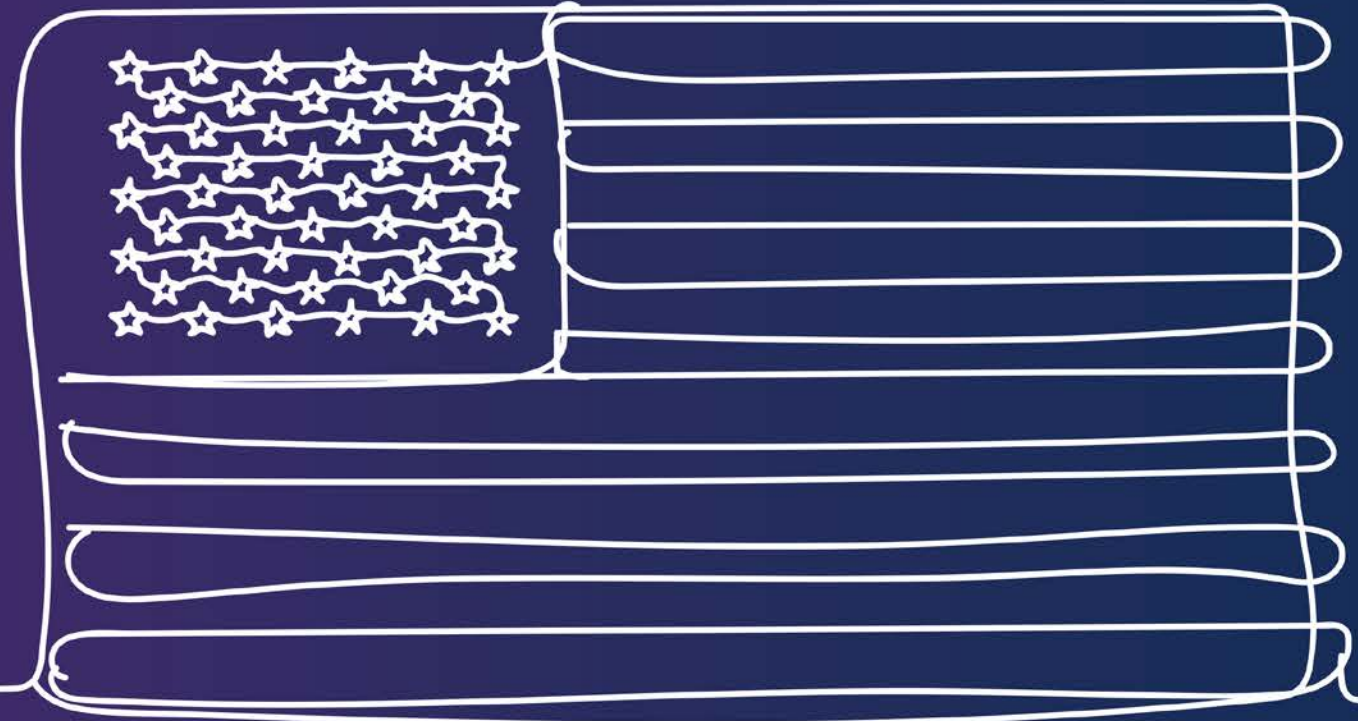
**~50%**

**5%-10%**  
Retail  
Value  
Share



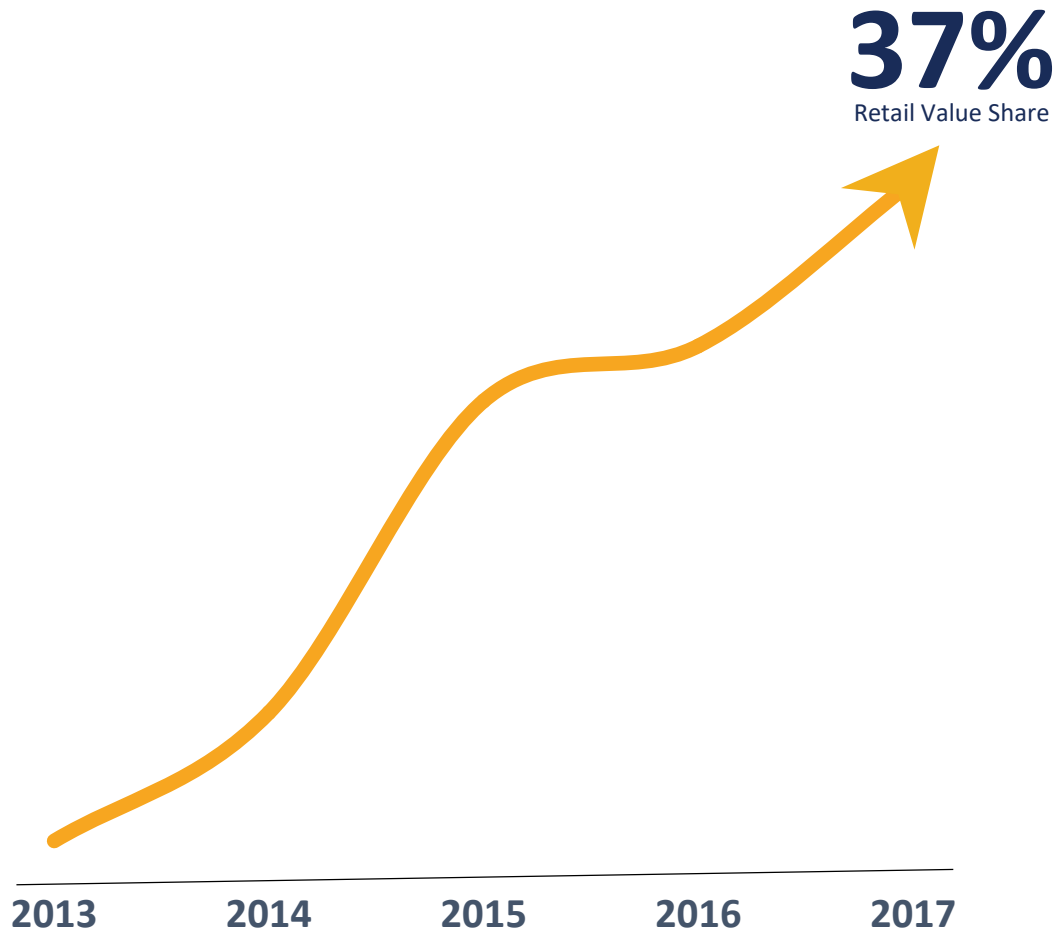
Source: US STR, UK Nielsen, other EMs BAT estimates

# World's Largest Vapour Market





# Vuse is the Market Leader



- #1**  
Leader Since 2014
- 37%**  
Retail Value Share
- 44/50**  
Leading In 44 Of 50 U.S. States
- DOUBLE DIGIT**  
Strong half year revenue growth
- Strong, Expanding Portfolio**

Source: STR YTD through 9/10/17 & RSD ASP

# Vuse Is The Market Leader



**#1**  
VUSE Solo In  
Units Sold

**#1**  
Value  
Share

**>100,000**  
Store  
availability

**> 50%**  
Category  
Captainty  
In 40,000 Stores

Source: STR dollar and volume VTD through 9/10/17 & RSD ASP; annualized cartridge sales

# Vuse Vibe has Boosted Performance



**>80,000**  
Retail store  
availability

**12%**  
Retail value  
share

**#4**  
In units  
sold after  
3 months

  
Weekly Offtake  
growing

Source: STR dollar and volume VTD through 9/10/17 & RSD ASP; annualized cartridge sales

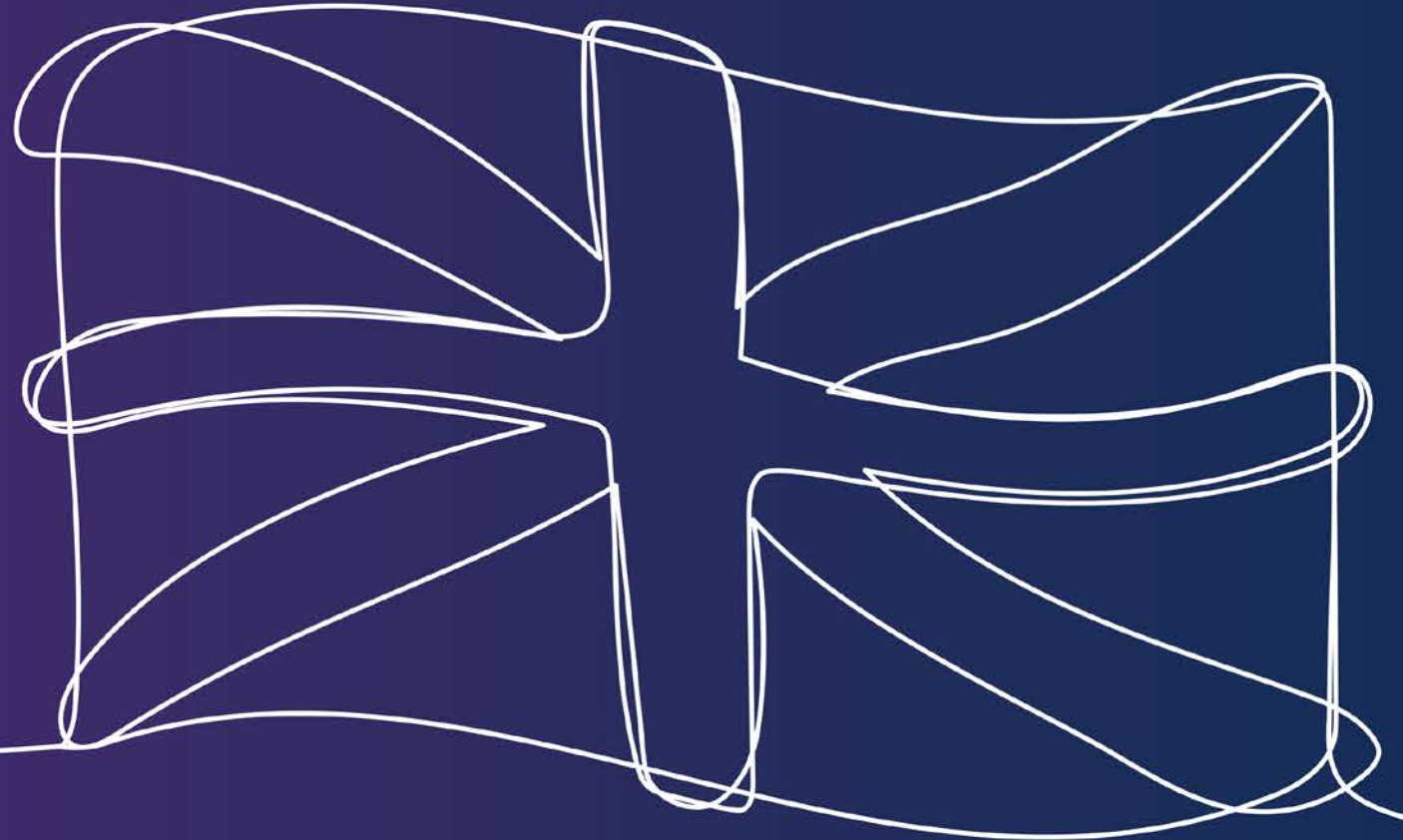
# eCommerce is a Substantial Opportunity for Vuse



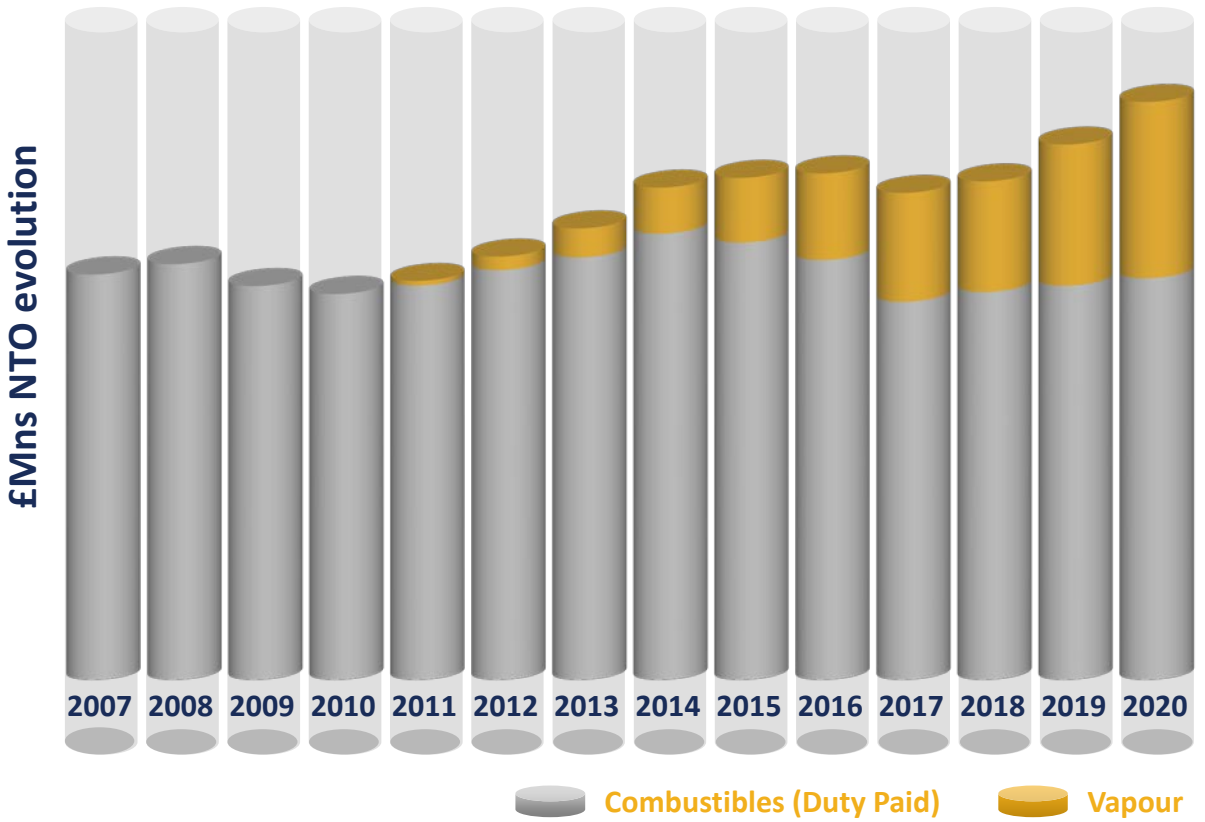
**Vusevapor.com**

Jan 2018  
National  
Launch

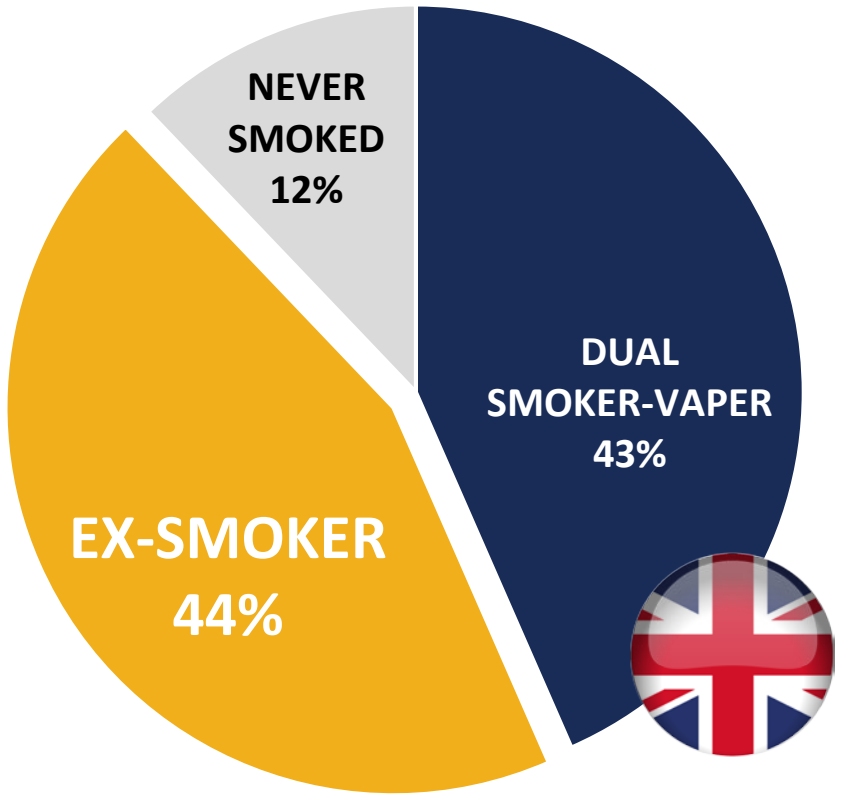
# World's 2nd Largest Vapour Market



# Vapour Value is Additive: Tobacco + Vapour Is In Growth



Source: Internal Estimates



Source: Kantar, cited in EY ENDS report, January 2017, Consumers by tobacco smoking characteristics (% of users)

# 'Compounding' Capabilities as the Market Leader



#1

>40%  
Retail  
Value Share



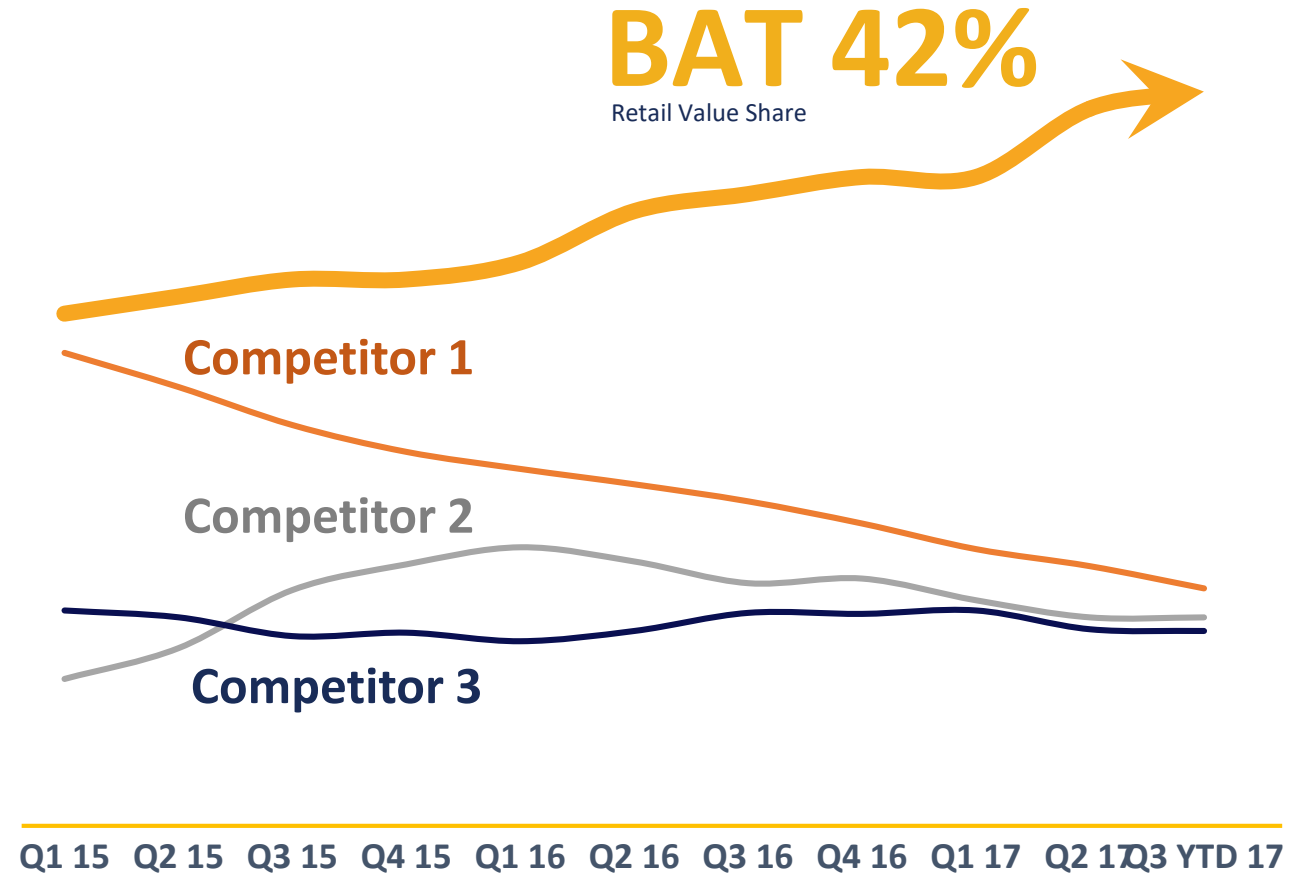
Fastest Growing  
Retail Vapour Brand  
(24% Cagr, '15-'17)



Share Up  
+7pp Since  
Acquisition

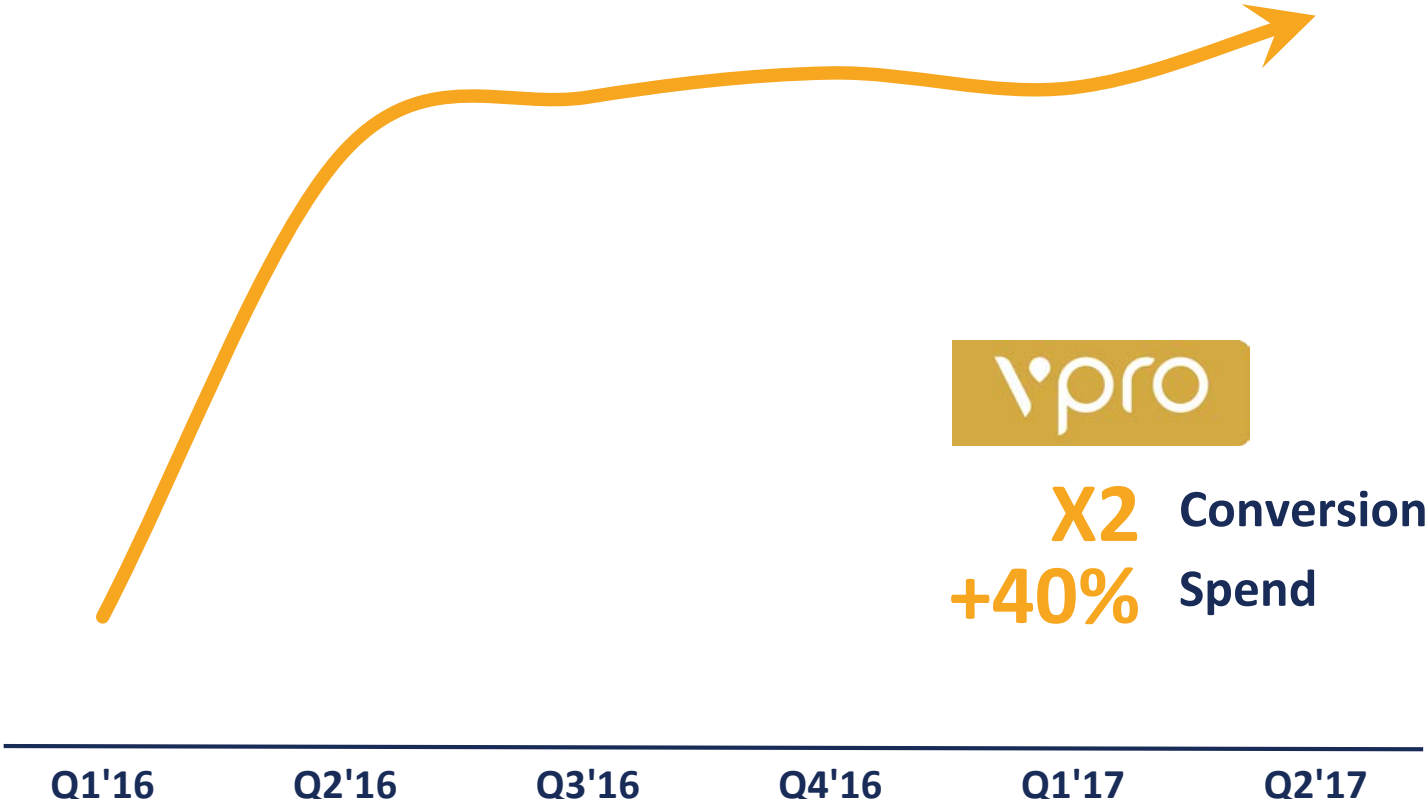


1.5mn Consumer  
Traffic Annually



Source: UK Nielsen

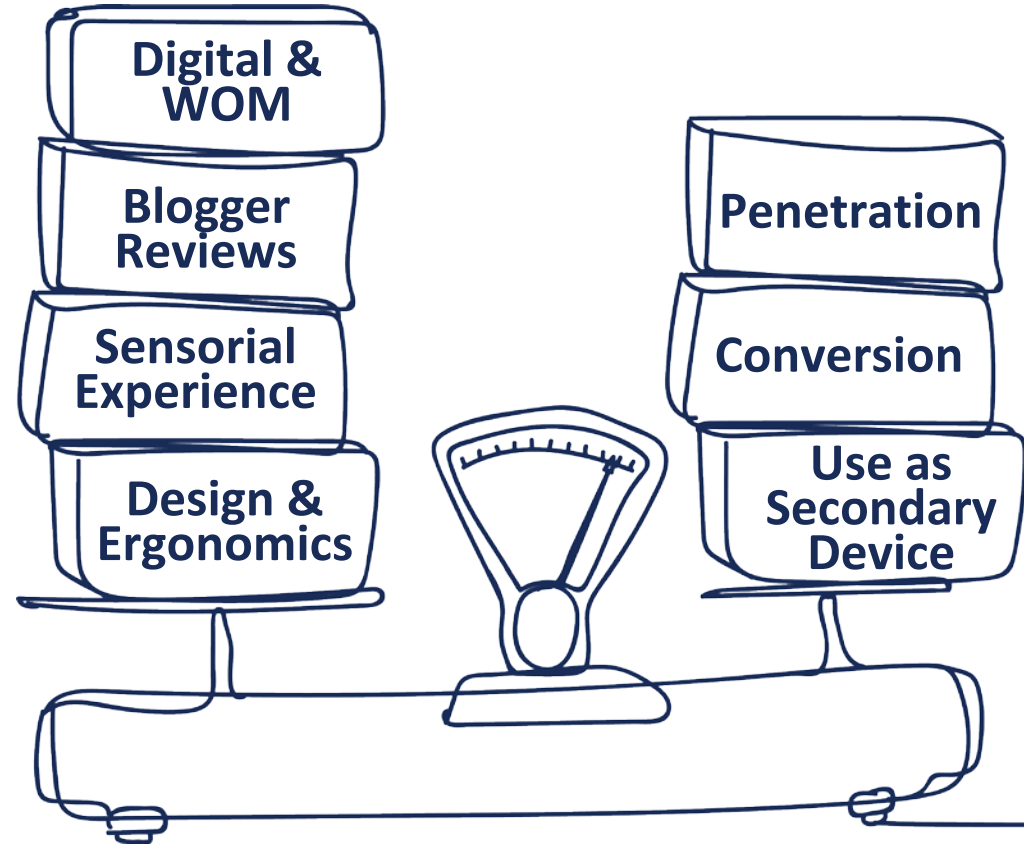
# Whilst ePen Lifecycle has Longevity...



Source: BAT T5 sell out data



# Vype Pebble Is A “Question Mark”...

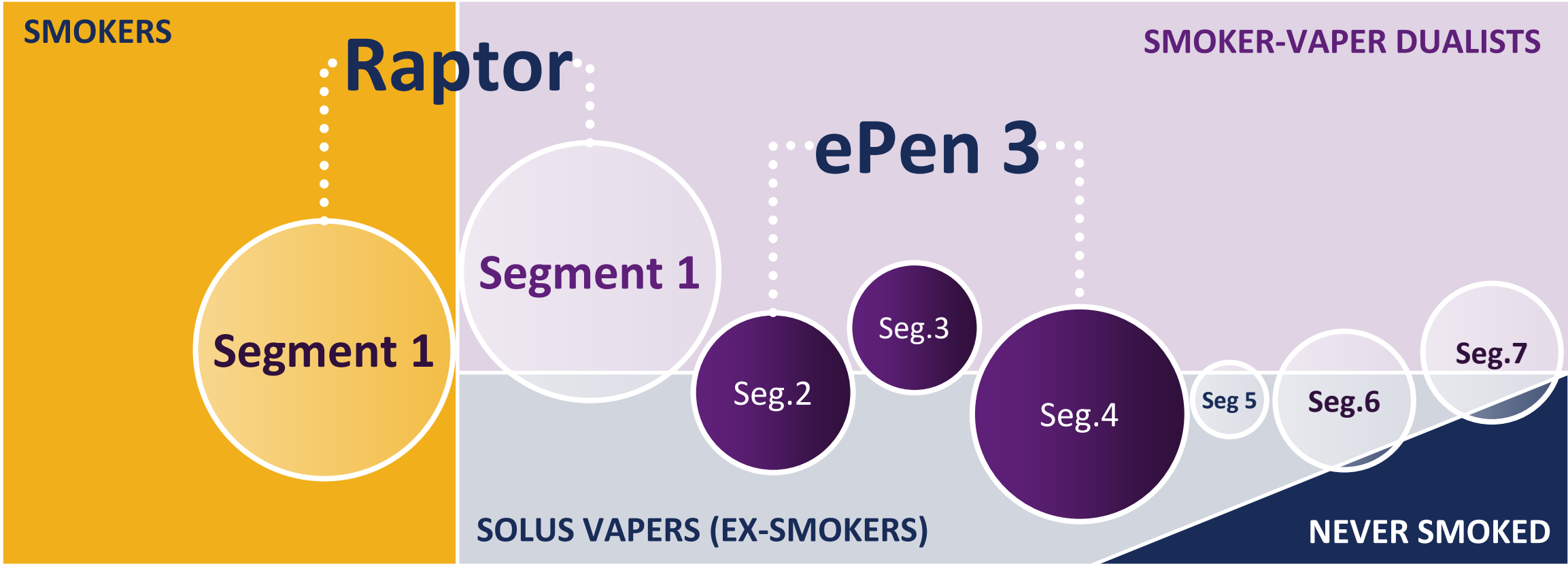


Source: BAT T5 sell out estimates, on line surveys, TOT UK

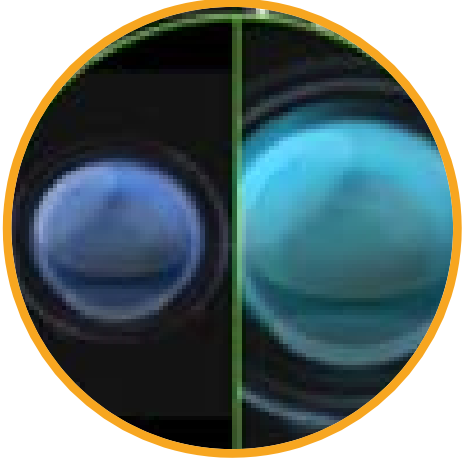
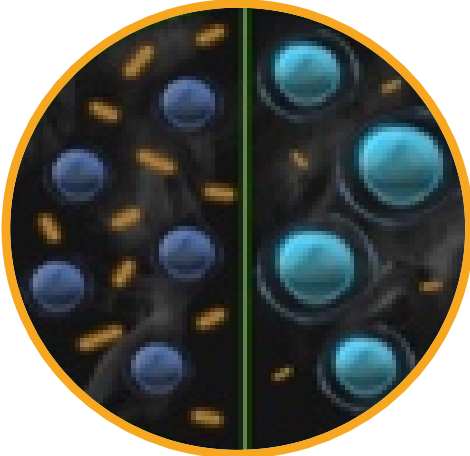
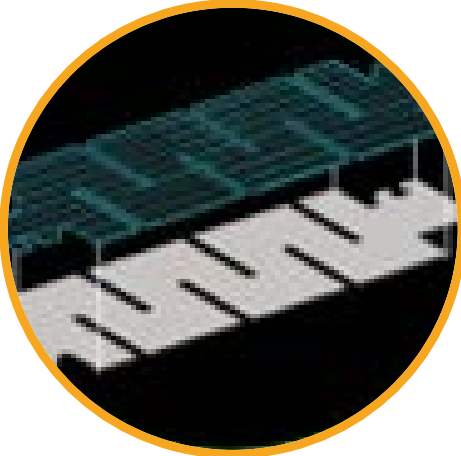
# Consumer Segmentation & Product Pipeline



# Powerful Insight-Enabled Segmentation Model



# Raptor: Test Market Planned for Q2 2018





**\*DOUBLE THE  
PERFORMANCE.  
95% LESS TOXICANTS.**

**95%**

**LESS TOXICANTS.  
100% SATISFACTION.**



**00%**

**\*\*TASTE.  
0% TAR.**

.\*These qualities do not necessarily mean this product produces less adverse health effects than tobacco products“ \*Comparison of smoke from an industry standard reference cigarette (approx. 9 mg tar) and vapour from [ePen3], in terms of the 9 harmful components the World Health Organisation recommends to reduce in cigarette smoke” \*\*By '0% tar' we mean no tobacco derived tar



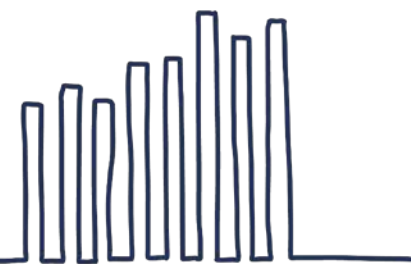
**% Global Value Share**

**#1**

**Top 2 Global Markets**

**750%**  
NTO vs. 2014

**12**  
Market footprint



**>35%**

**U.S. Retail Value Share**

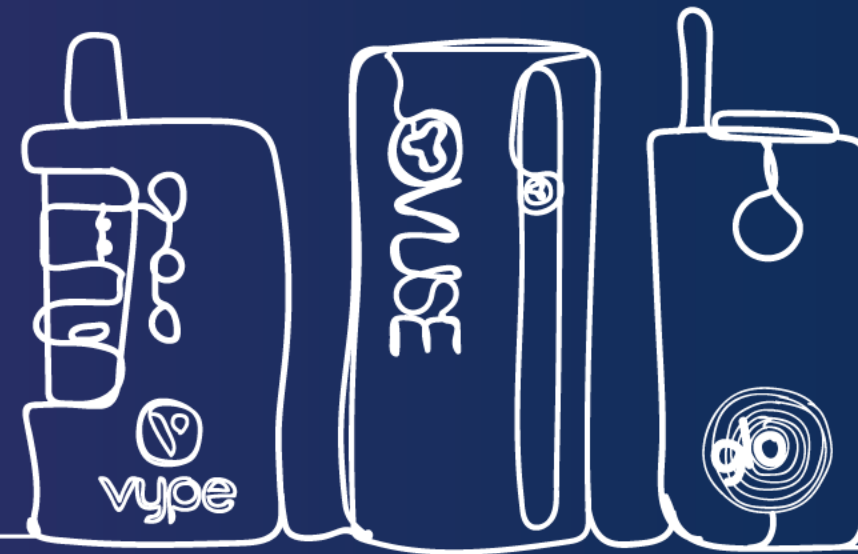


**> 40%**

**U.K. Retail Value share**

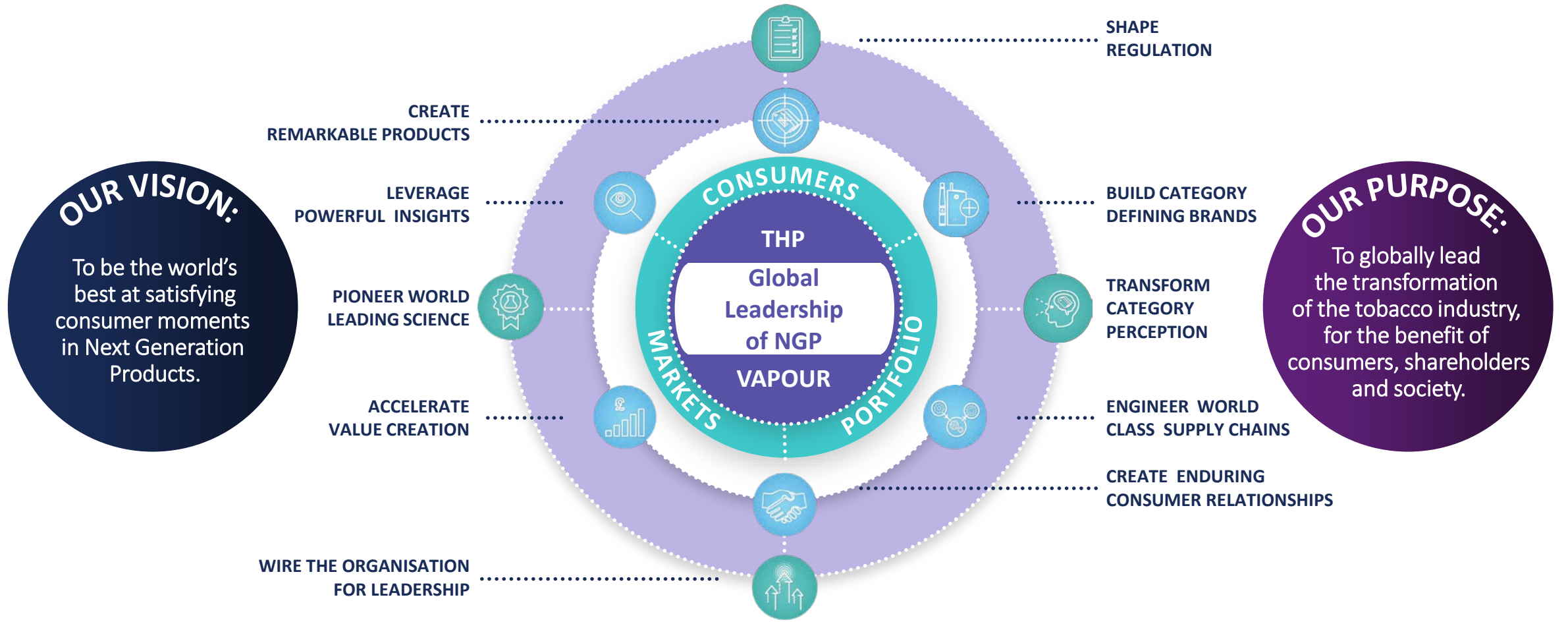


# In Conclusion...



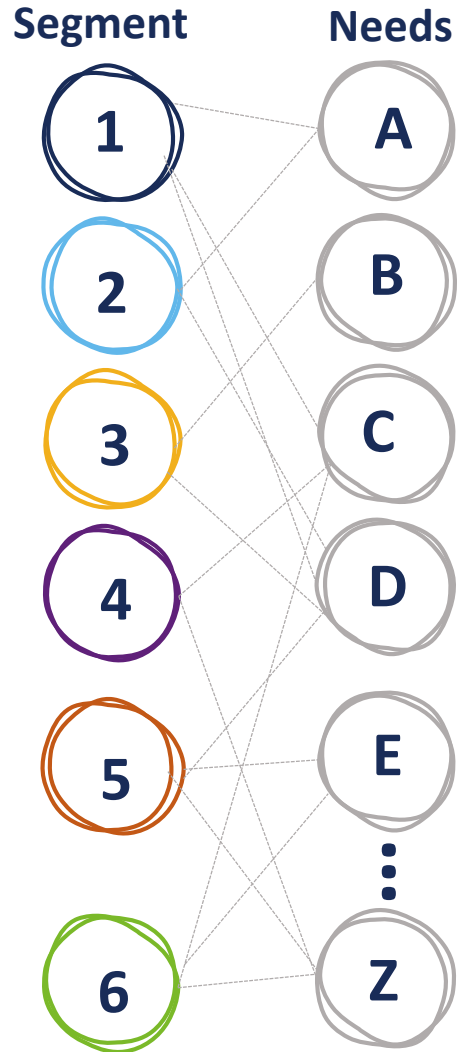


# A Multi-Category Strategy For Leadership...

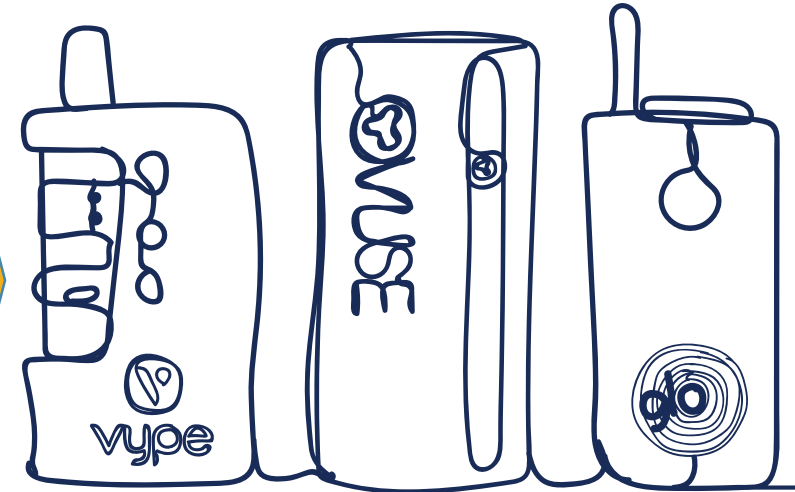




# Because Consumers will Segment...



## PORTFOLIO



Vapour

Hybrid

THP

# Your Questions...



Can you 'make us believe' that your **multi-category strategy** is the right one?

---

Update us on your **Vapour performance** and outline **marketplace's commercial viability**.

---

How can you deliver **category leadership with your Glo & THP** platform(s)?

---

Why are you not **rolling out faster**?

---

Given your leadership ambition, **what capacity do you have**, especially for Glo?

---

Explain the **confidence** in your stated **NGP future**?

# Your Questions... answered...



A **multi-category strategy** because consumers will segment and there's no 'silver bullet'

---

**Number 1** Globally in Vapour and a **substantial market place** to shape profitably.

---

We believe **glo** (already ~35% SOS in Sendai) and **iFuse 2.0 can deliver THP leadership.**

---

We are prioritising roll-out to **maximise effectiveness** / in-market performance

---

We have the **Glo capacity we need** and have a **fast response times** to bolster.

---

Confidence Explained. Consumer **Insight.** Global **Scale.** Outstanding **Pipeline.**

# Next Generation Products

