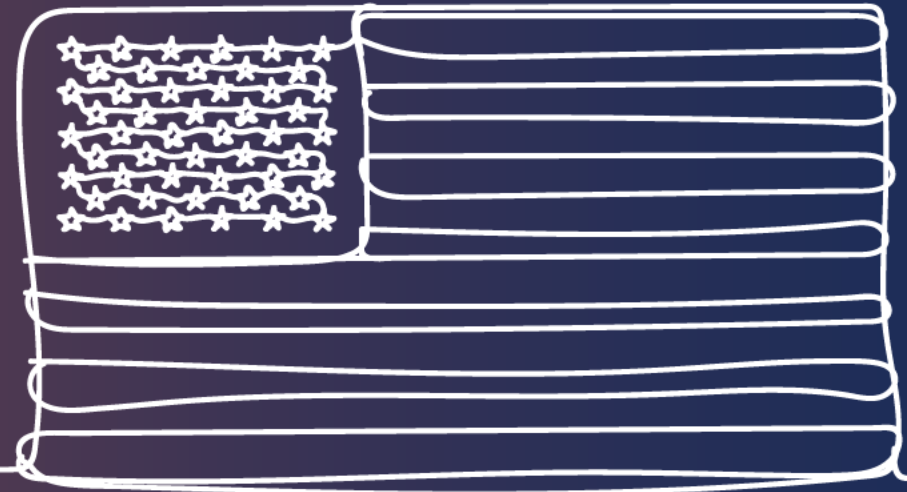


# United States Update

Debra Crew  
Chief Executive Officer  
Reynolds American



# 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 Circumstances may change and the contents of this presentation may become outdated as a result.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.

# As part of BAT, we are accelerating our transformation journey...

- A proven strategy, aligned with the BAT group
- Strongest portfolio dynamics across all categories in a highly attractive market
- Financial performance driving industry-leading returns and investments for the long-term
- Leadership in Vapor, strong expertise in THP



Our vision has been consistent since 2006

We will achieve  
**market leadership**  
**by transforming**  
the tobacco industry

**We will lead industry transformation by:**

**Driving innovation**

**Redefining ATC enjoyment**

**Reducing harm of smoking**

**Reducing youth tobacco use**

**Commercial integrity**

# Success hinges on delivering against our strategic imperatives

- Accelerating growth in smoke-free and next generation tobacco products



- Winning share profitably in a declining combustible market



- Developing the necessary talent and capabilities to succeed in a transformed industry



Continued Robust Operating Income Growth



# We have developed a strong portfolio...

Brand	Key Achievements
Newport	No. 1 menthol brand
CAMEL	Leading total-tobacco brand No. 3 cigarette brand No. 1 Snus brand
PALL MALL	No. 1 value brand by wide margin
NATURAL AMERICAN SPIRIT	Now a top-10 cigarette brand
GRIZZLY	No. 1 brand in moist-snuff wintergreen, pouches
VUSE	No. 1 vapor brand by wide margin Superior technology



# The RAI Companies are well-positioned across the tobacco industry



Cigarettes  
Snus  
THP - HnB



Natural American Spirit  
cigarettes



Moist Smokeless  
Tobacco



Vapor



NRTs

# Agenda

The U.S. Market & Adult Tobacco Consumer Overview

U.S. Marketplace Perspective

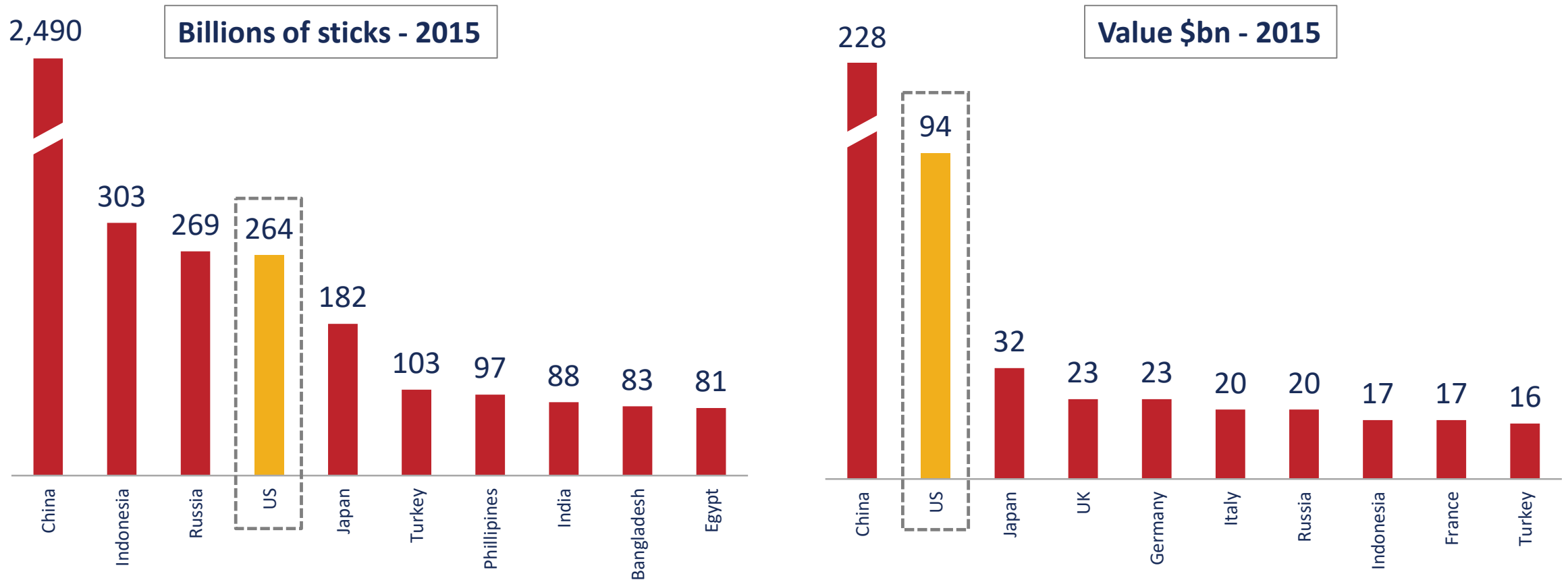
RAI Performance & Key Transformation Initiatives



# The U.S. Market & Adult Tobacco Consumer

# Highly attractive U.S. market vs. ROW

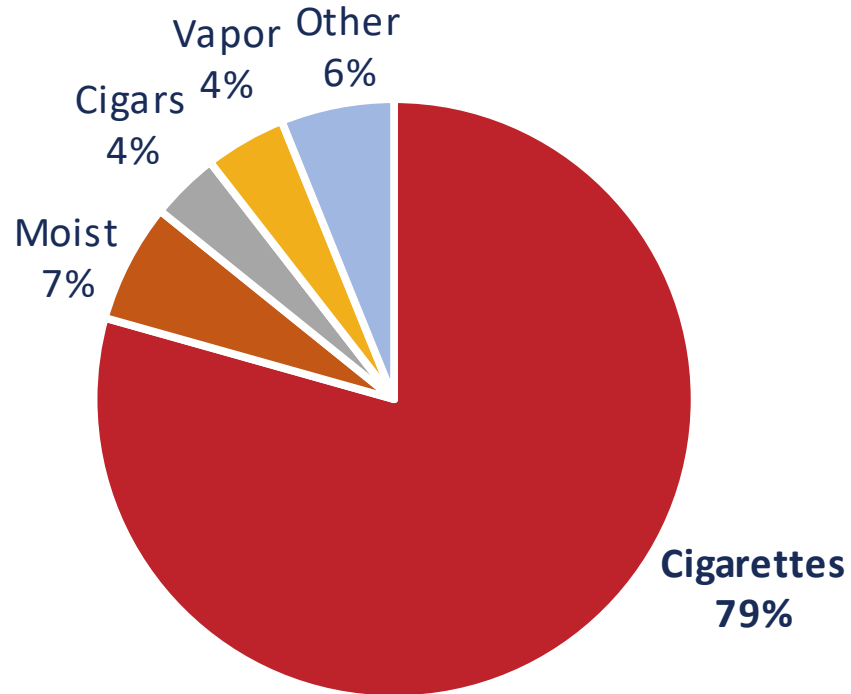
One of the biggest tobacco markets by volume... and largest open market by value



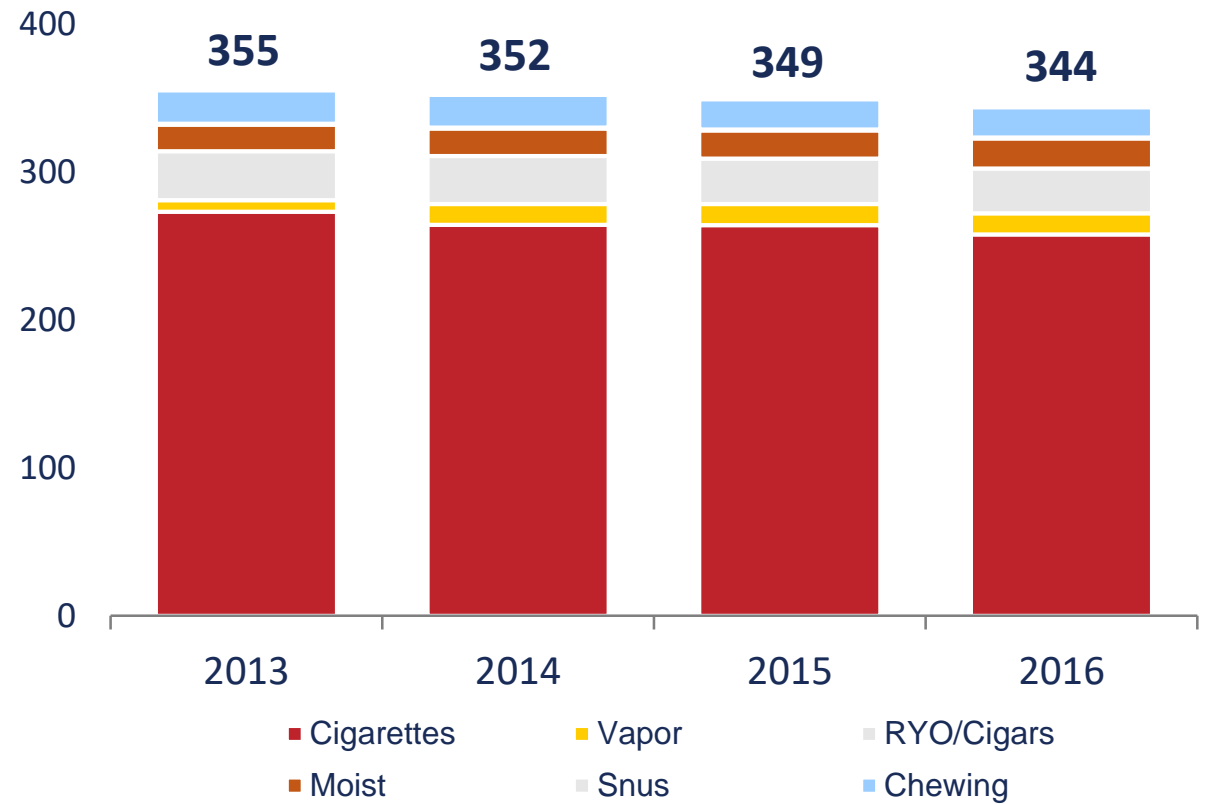
Source: Euromonitor, Global Insights, Company internal data

# Cigarettes are ~80% of total volume; total tobacco volumes relatively stable

## 2016 Tobacco Volume



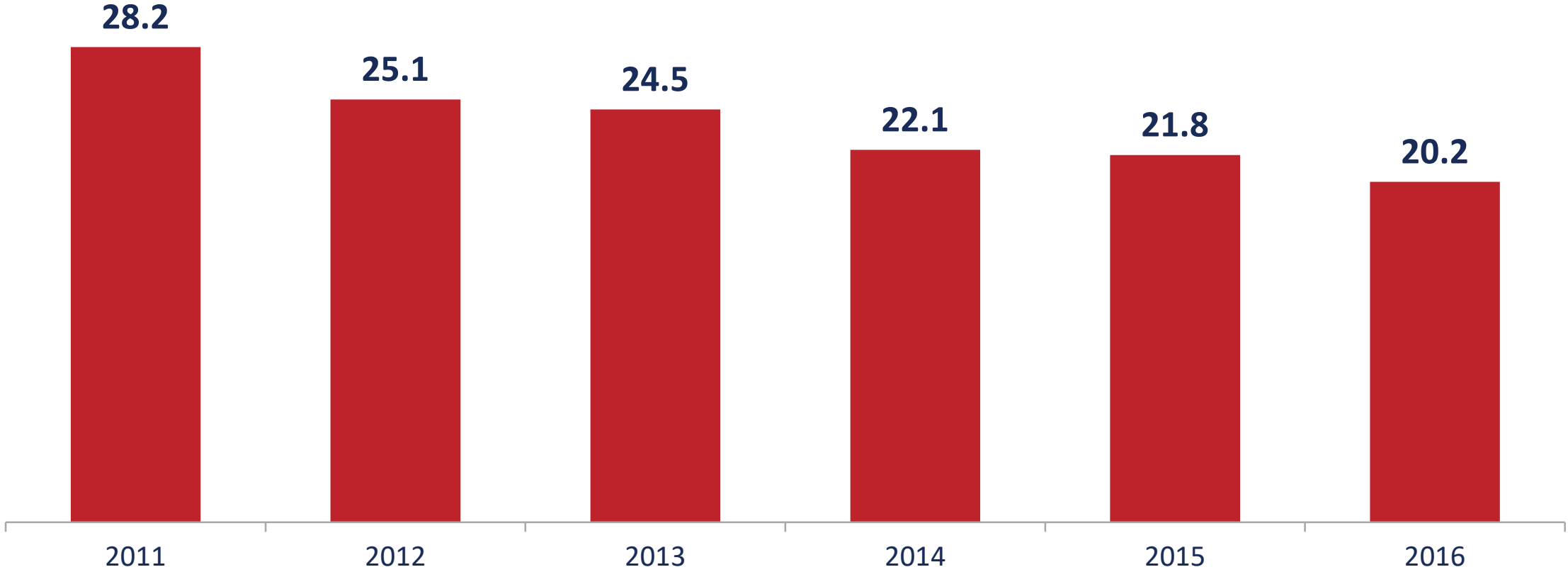
## Total Tobacco/Vapor Volume



MSA, Inc. STW

# U.S. is marked by continued declines in cigarette use prevalence

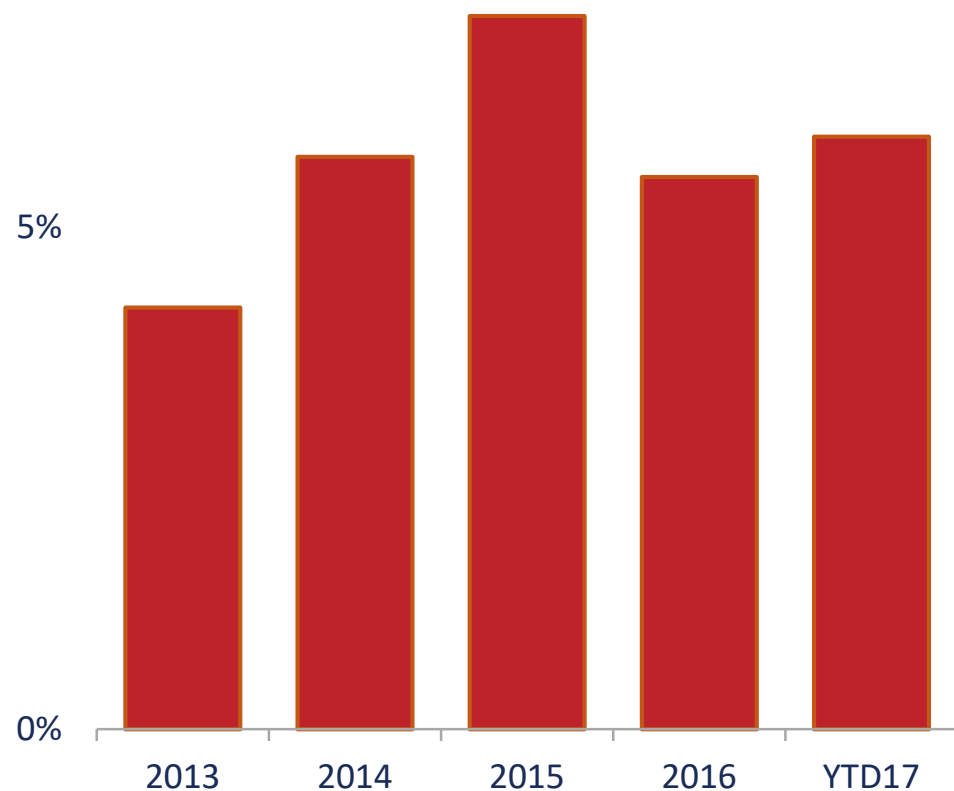
Cigarettes 21+



Source: Consumer Tracker

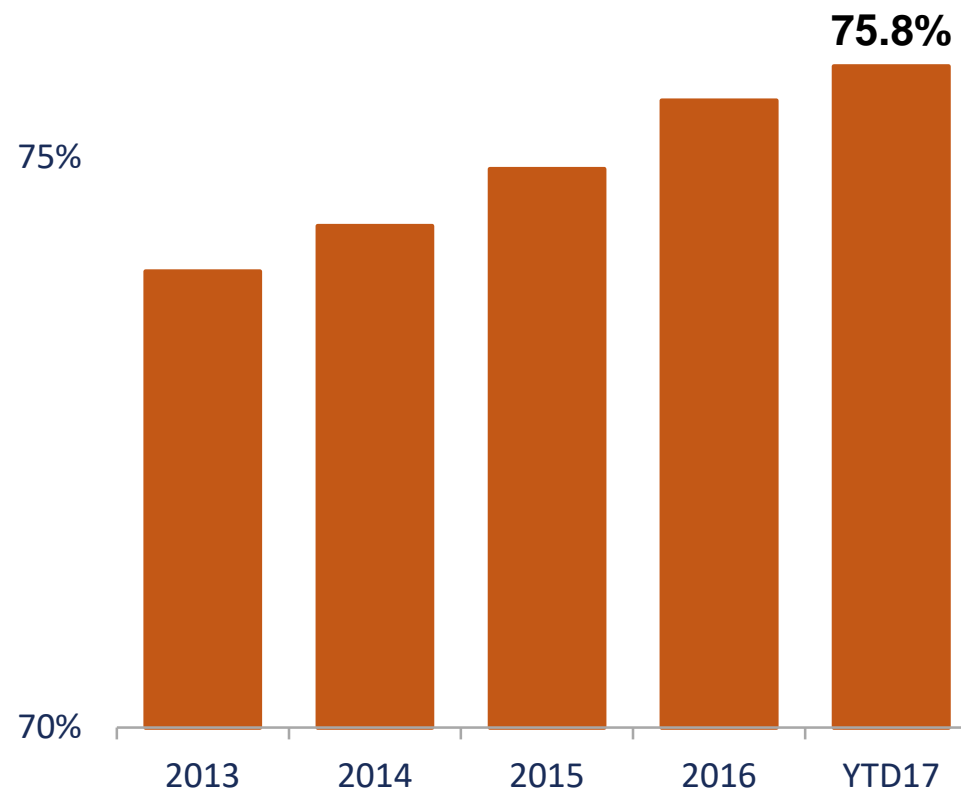
# But is characterised by strong pricing and a high premium skew

## Cigarette Net Pricing Realisation



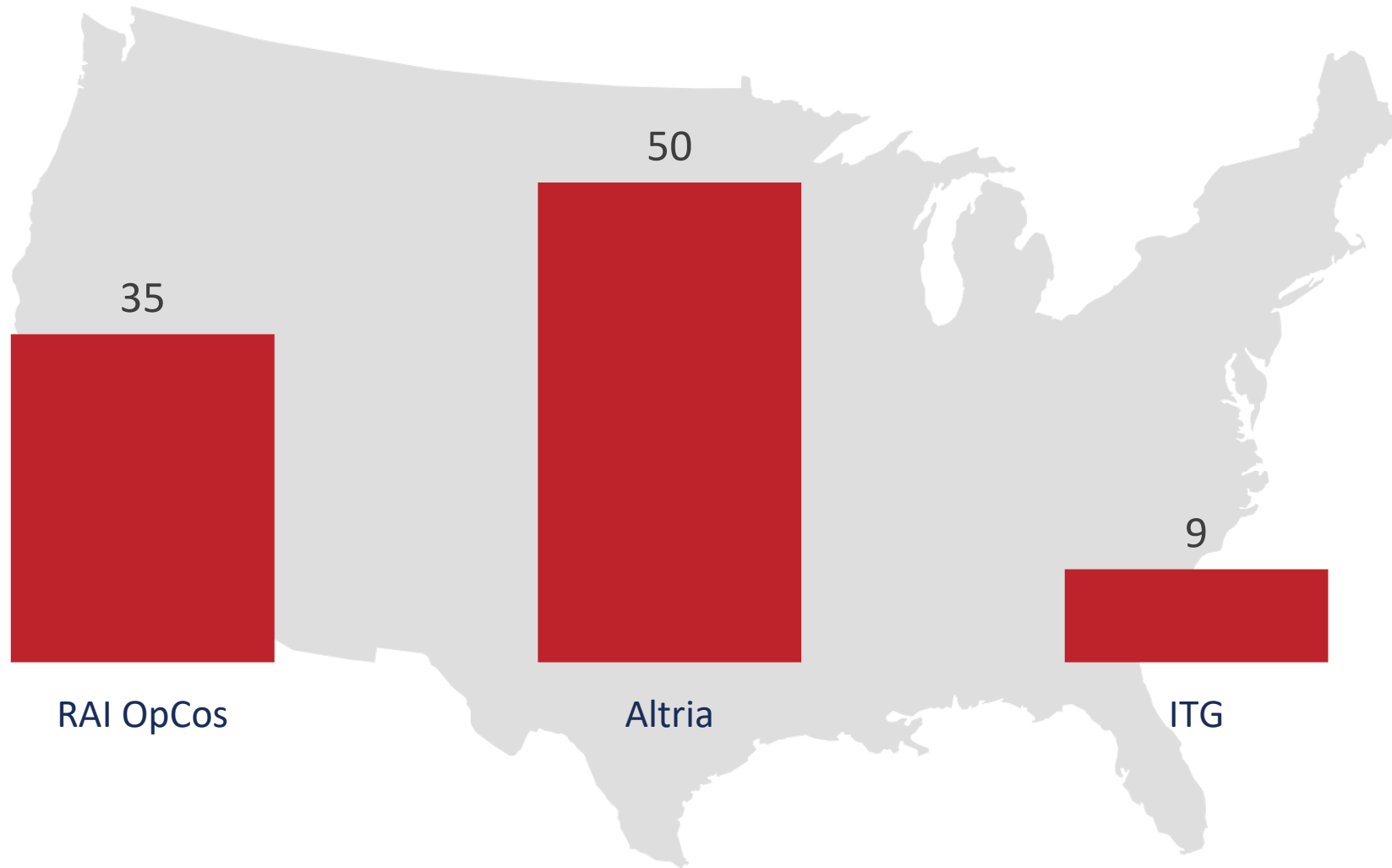
Source: Company filings – Altria and RAI OpCos only.

## Premium Cigarette Mix



MSA, Inc. STR

# Three companies account for >90% volume & profit

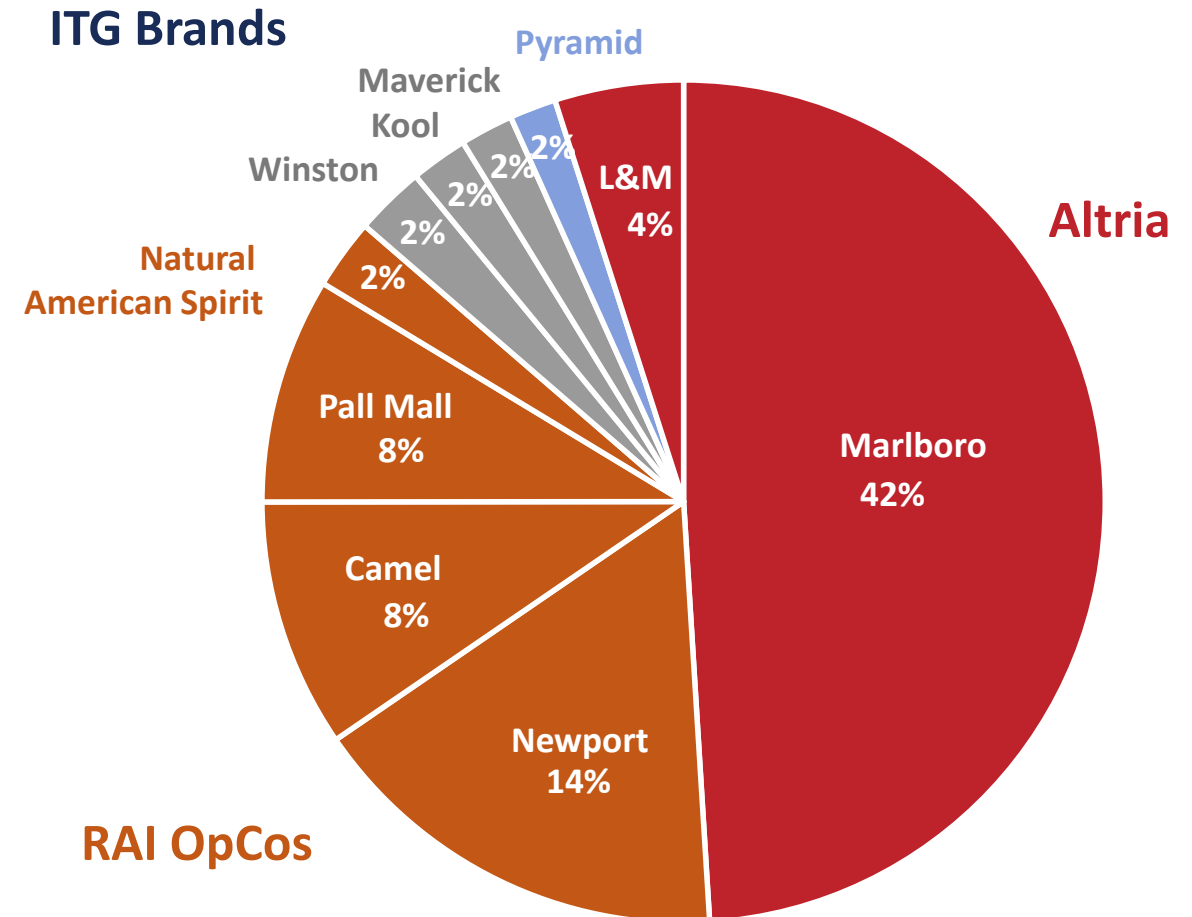


MSA, Inc. STR Sep YTD-17



# Top ten cigarette brands are 86% of volume

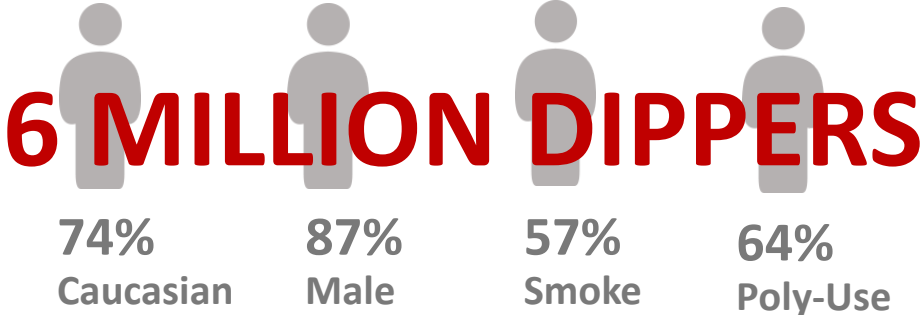
- The Big 3 Manufacturers represent 9 of the top 10 brands
  - RAI with 3 of Top 5 brands
- RAI OpCo Drive Brands are more than 32% of total industry share of market
- RAI OpCo Drive Brands make up 94% of total RAI cigarette volume



MSA, Inc. STW

# Moist snapshot

## Homogeneous ATC



Rooted in tradition  
 Family influence  
 Blue collar  
 Rural

## Growing Profit Pool and High Margins

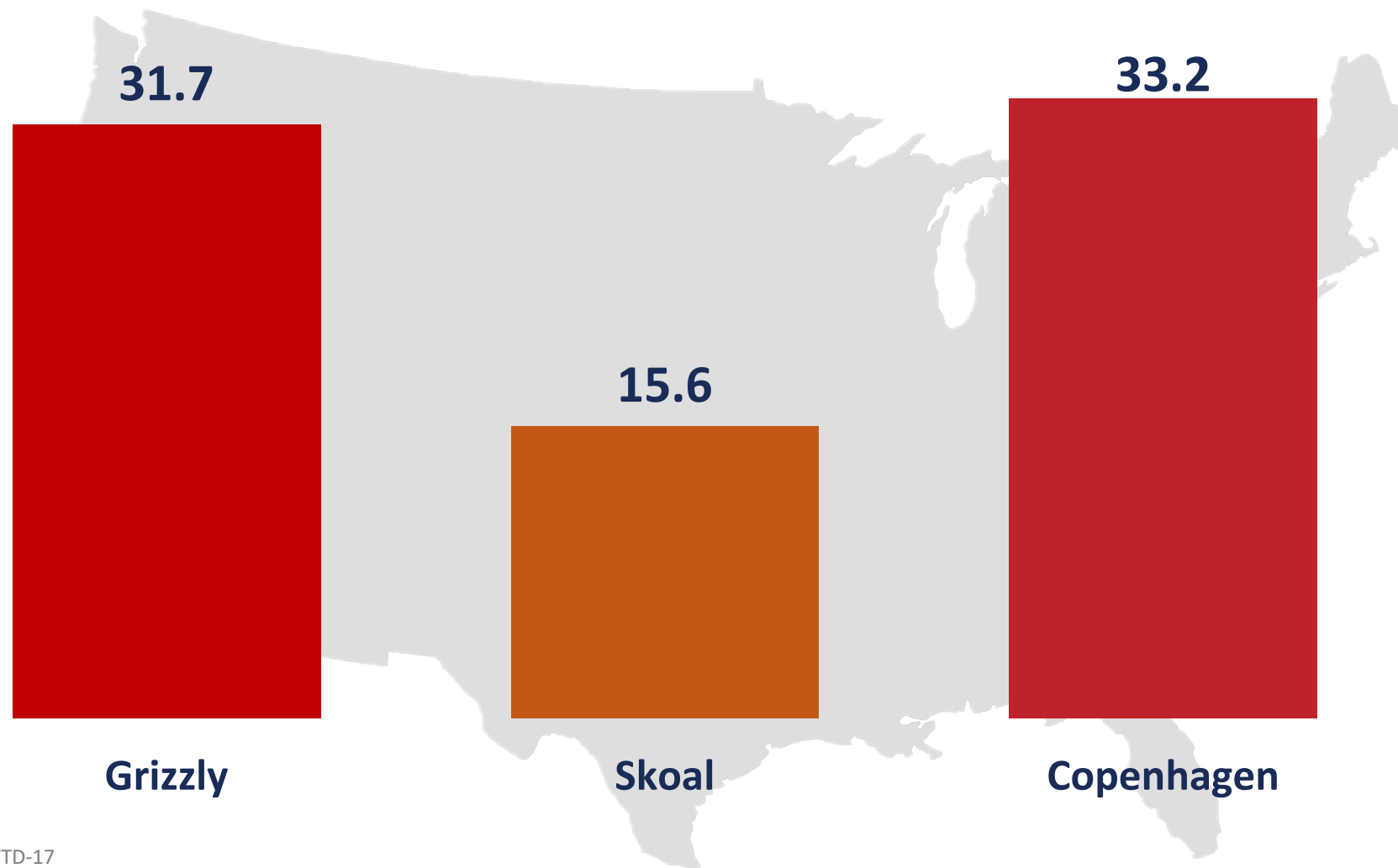


## Dipper Compared to Smoker



AVERAGE AGE, HIGHER INCOME, HIGHER EDUCATION  
 MORE EXPERIENTIAL WITH GREATER POLY-USE  
 USE MULTIPLE FLAVORS (MINT & NON-MINT)  
 GREATER PRODUCT INTIMACY

# Grizzly Competes for U.S. Moist Retail Share Leadership



MSA, Inc. STR Sep YTD-17

# Vapor estimated to be ~\$4B – \$5B in retail sales

## Tracked Channels

**30 - 40%**  
**\$1.5B**



**E-cigarettes, Vape Pens, Liquids**

**Vape Shops**      **E-Commerce**

**~60 - 70%**

**\$2.5B - \$3.5B**

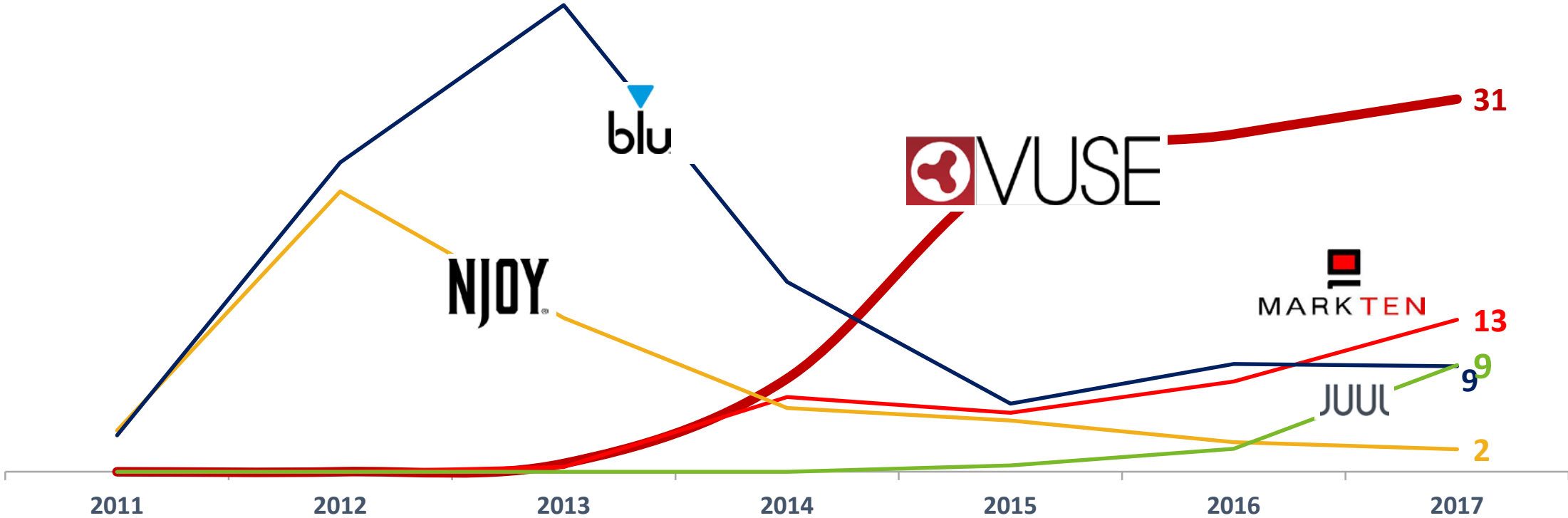


**Vape Pens, Open Systems, Tanks/Mods, Liquids**

MSA, Inc. STR, Industry analysis.

# RJR Vapor is winning in tracked channels

VUSE has been the #1 vapor brand since 2014

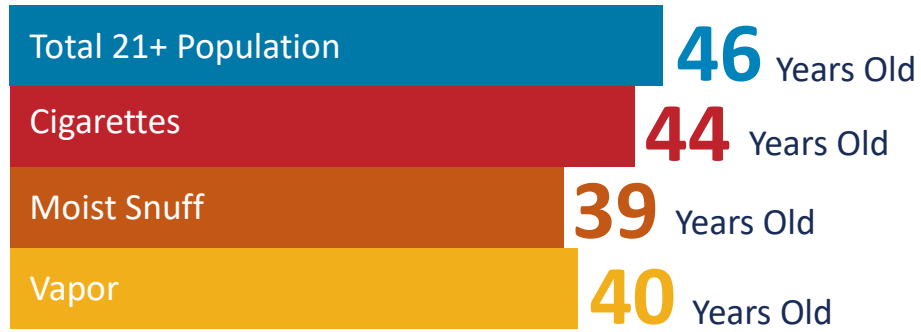


MSA, Inc. STR Sep YTD-17

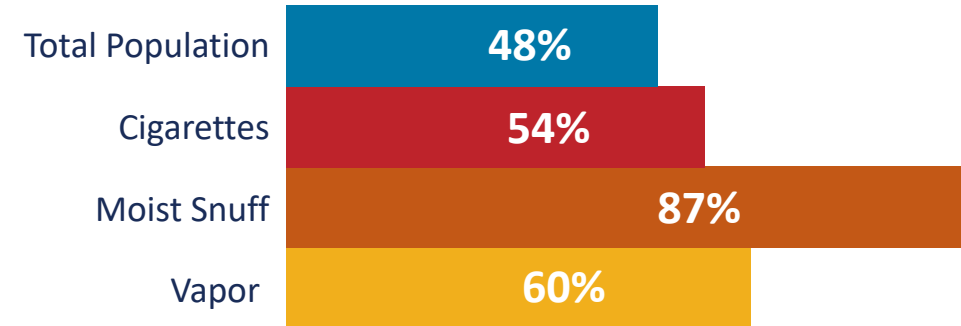
# Total Tobacco User Profile

Market Size – 38MM smokers, 22MM Vapers, 6MM Dippers, 4MM Snusers

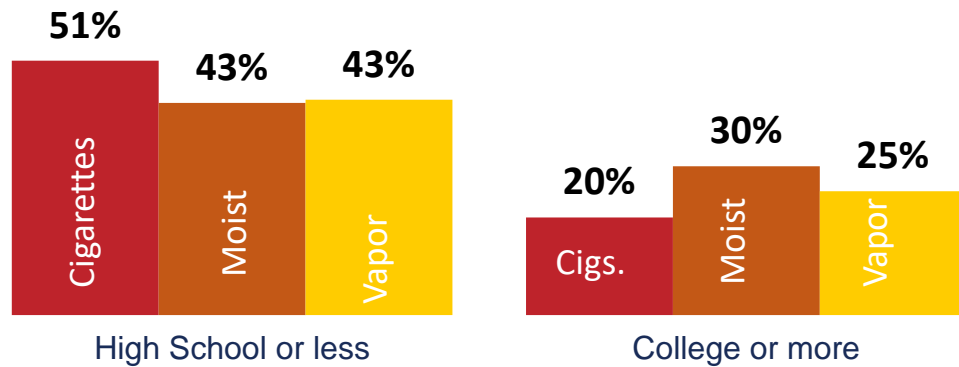
## Average Age



## Percent Male



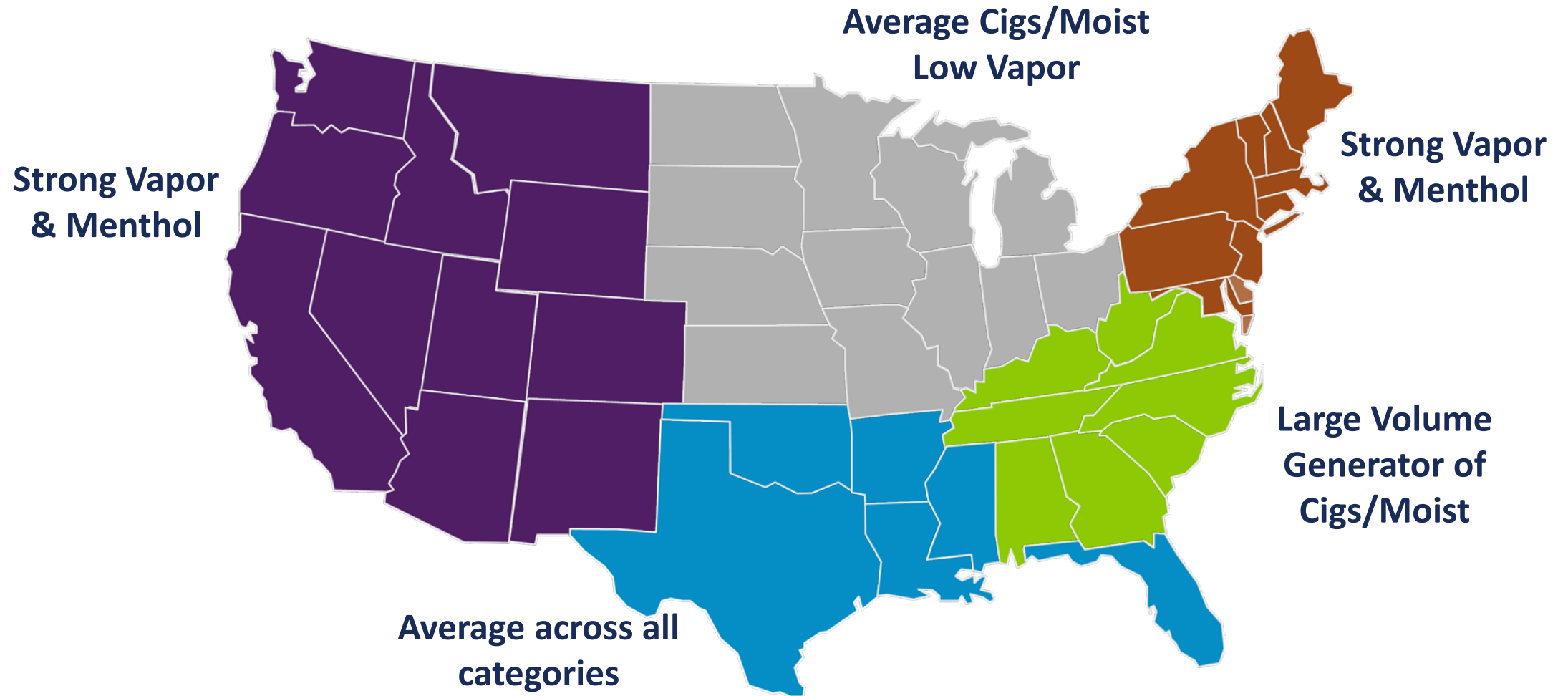
## Educational attainment



## Average Income



# U.S. composed of many different regions



# Adult consumers reshaping tobacco



- Tobacco consumers are navigating a challenging environment
- 46% open to change, looking for products that better suit their desires
- Consumers are becoming tobacco users versus being identified with one category

Source: ATC segmentation



## Key trends driving consumer choices

Aging and  
Multicultural  
Demographics

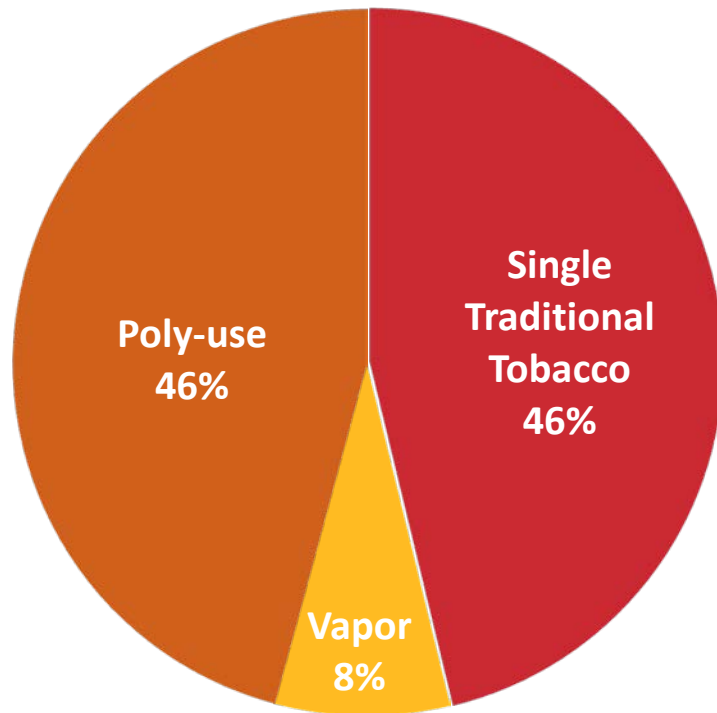
Seeking  
Alternatives to  
Cigarettes

Menthol

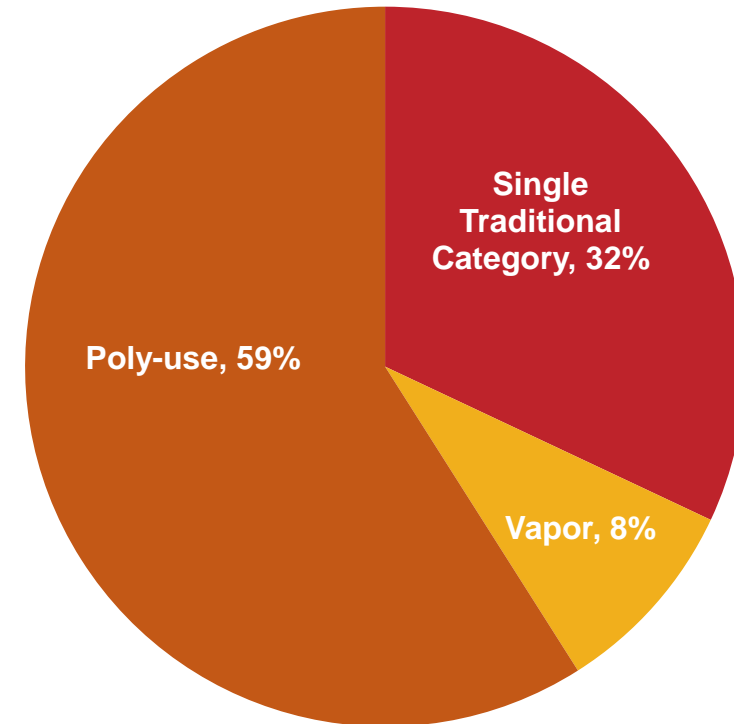
Value Hunting

# Poly-use is the Norm...

**% ATC 21+ Category Usage  
(2016)**



**% ATU35 Category Usage  
(2016)**

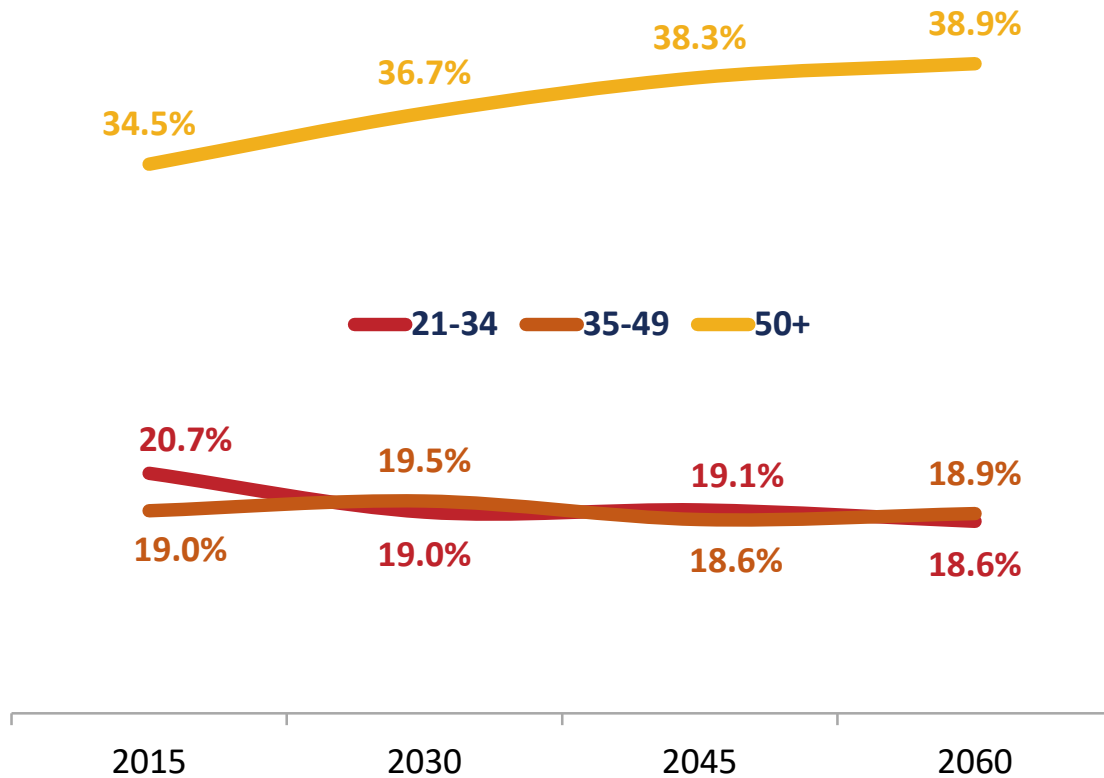


Source: Consumer Tracker

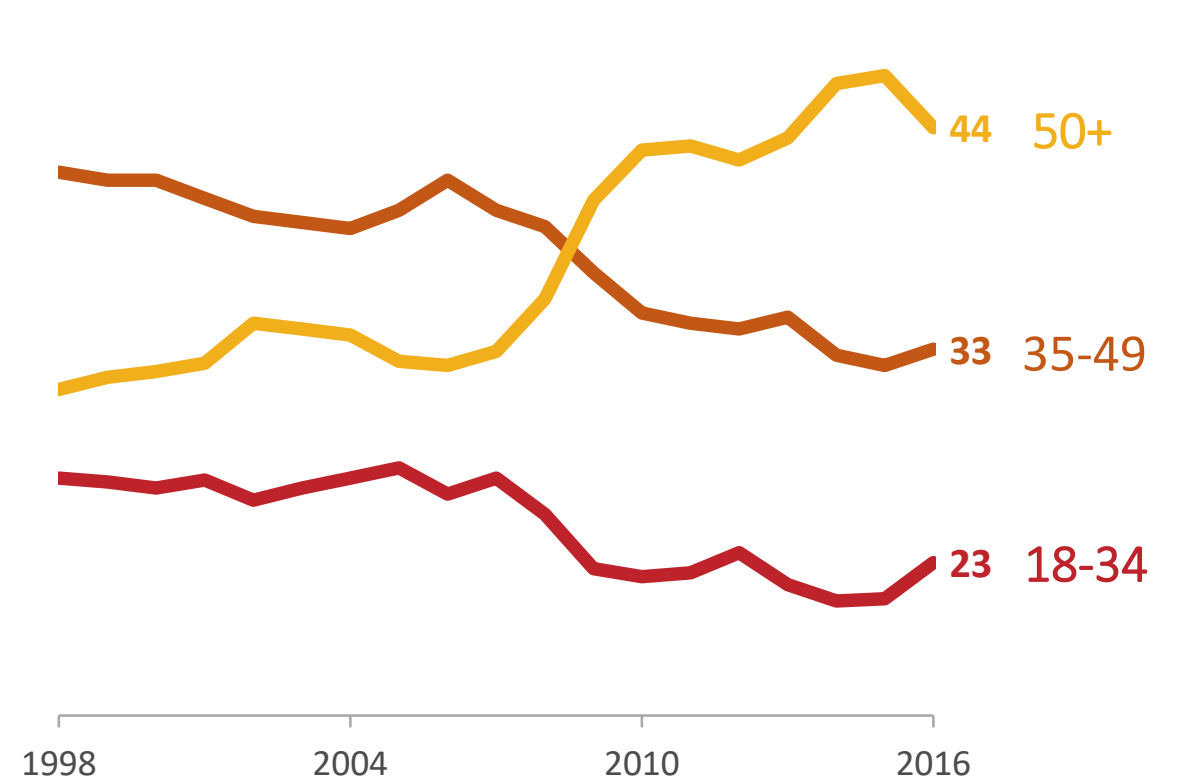
# U.S. population is aging

And 50+ adult tobacco consumers have a growing volume importance

### U.S Population Projection

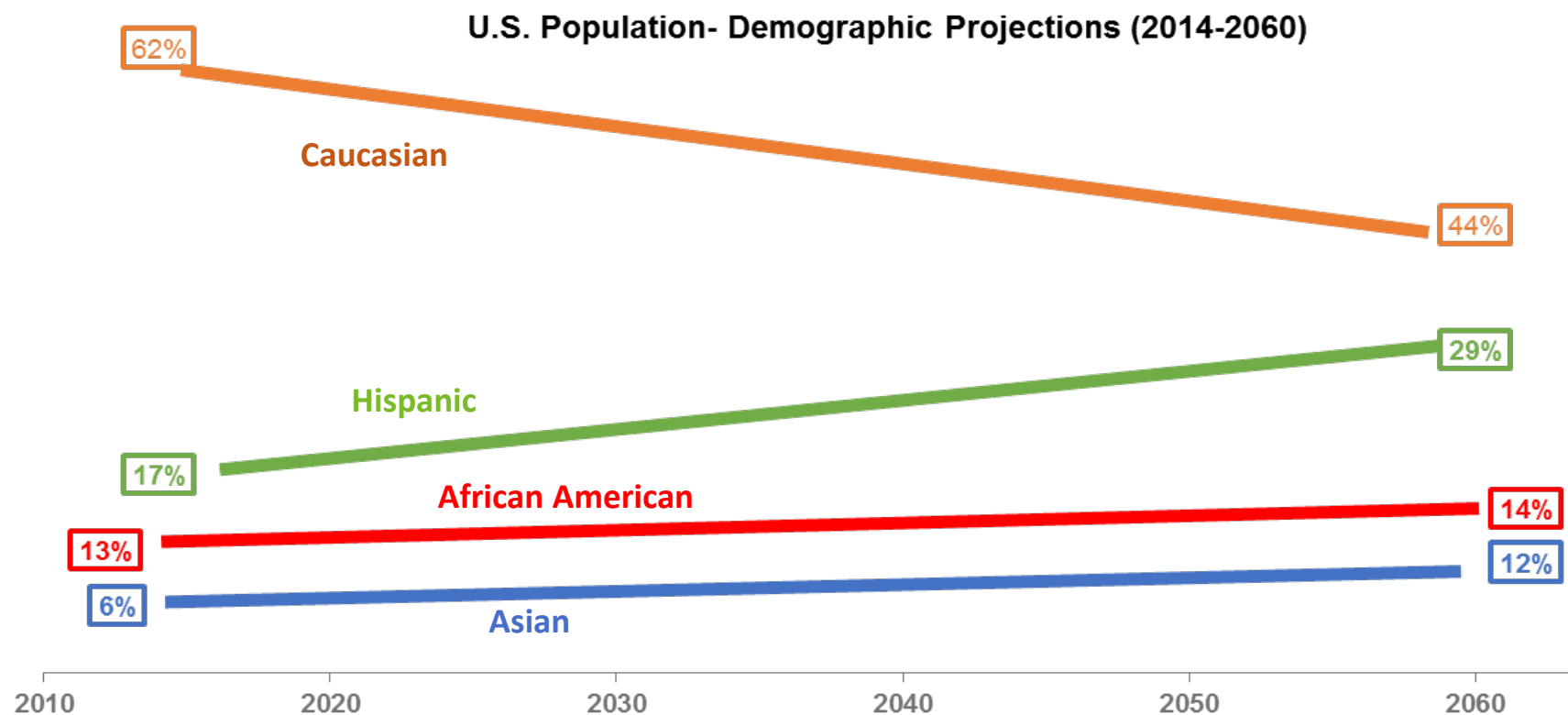


### % Cigarette Volume By Age



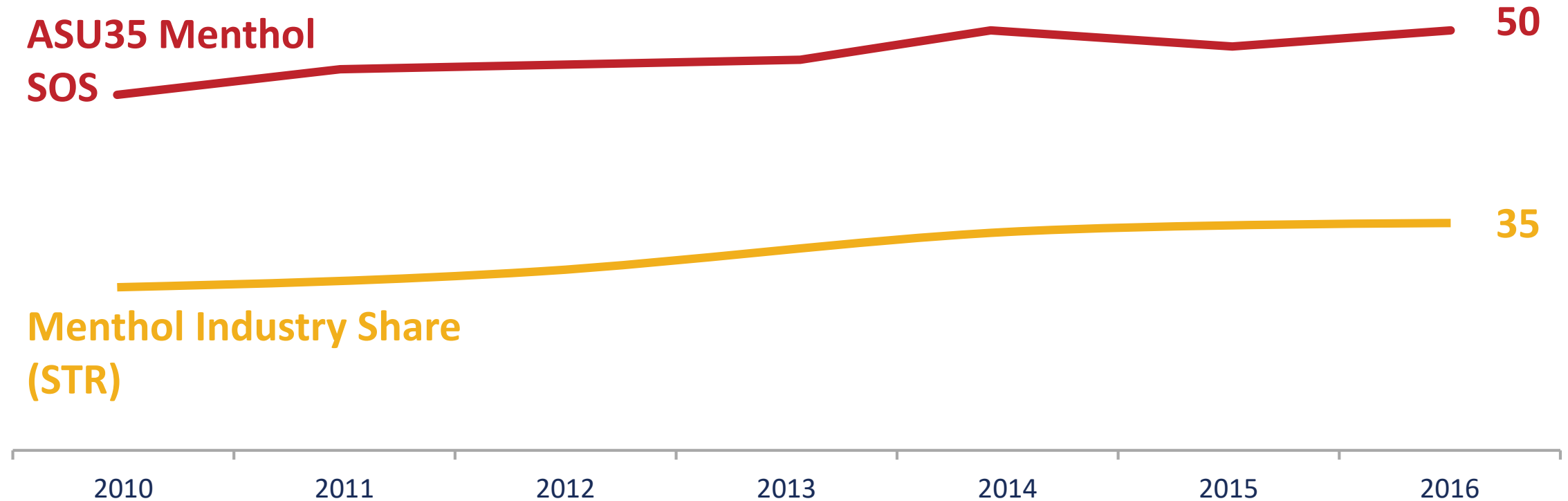
# The U.S. is also becoming diverse and multicultural

- Rapidly changing the game for brands and companies
  - Cultural relevance, values and expectations from companies and brands



# Menthol is on Long-Term Growth Trend

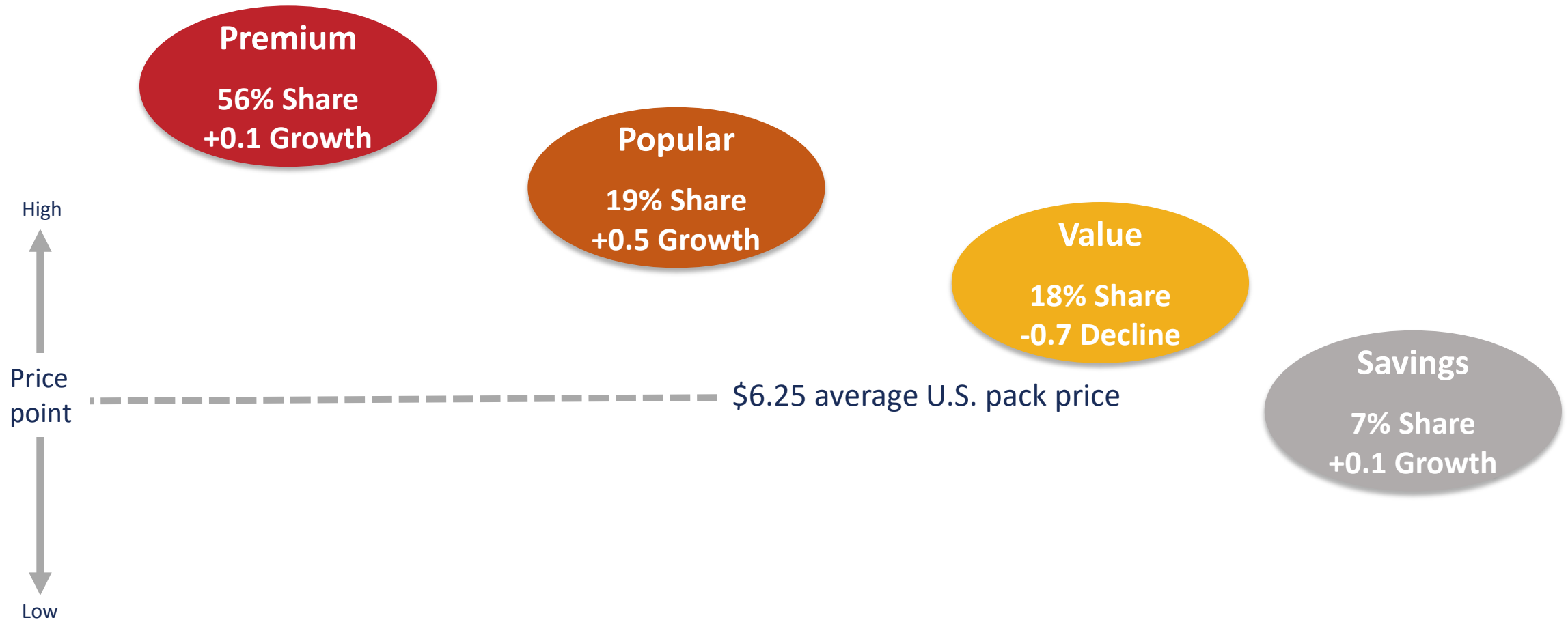
## Menthol Importance



Source: STR/Consumer Tracker

# U.S. Marketplace Perspective

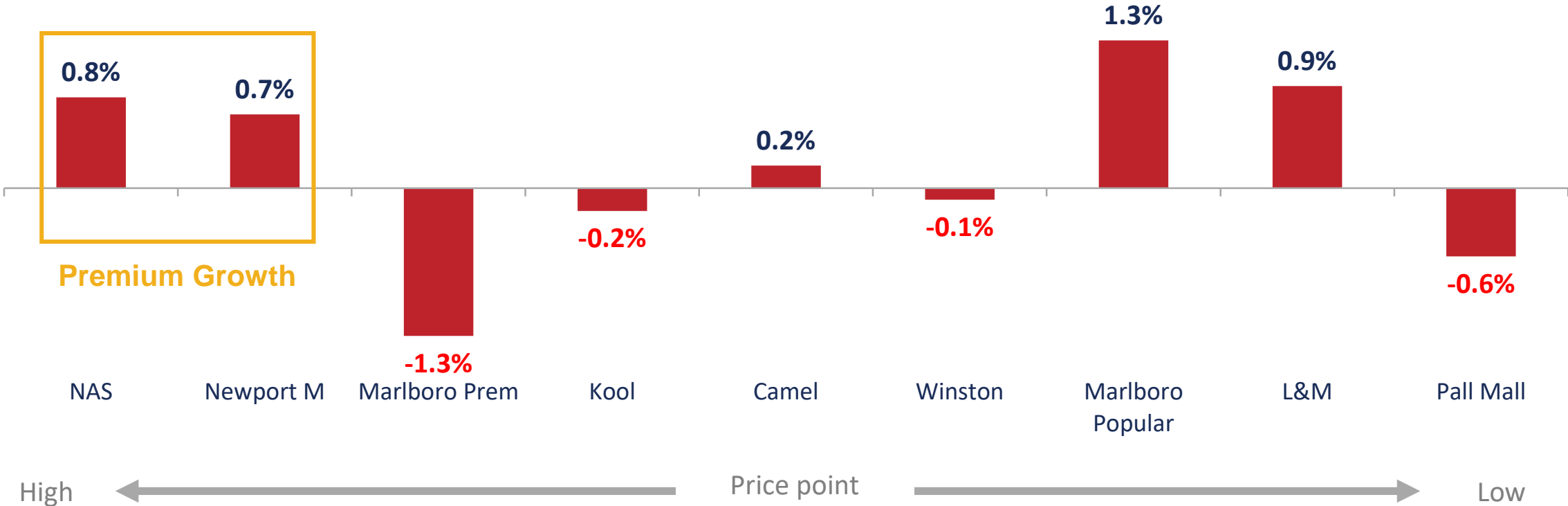
# Adult smokers shifting to premium and popular



MSA, Inc. STR

# RAI OpCos driving growth at the premium end of the market

■ 3 yr share change



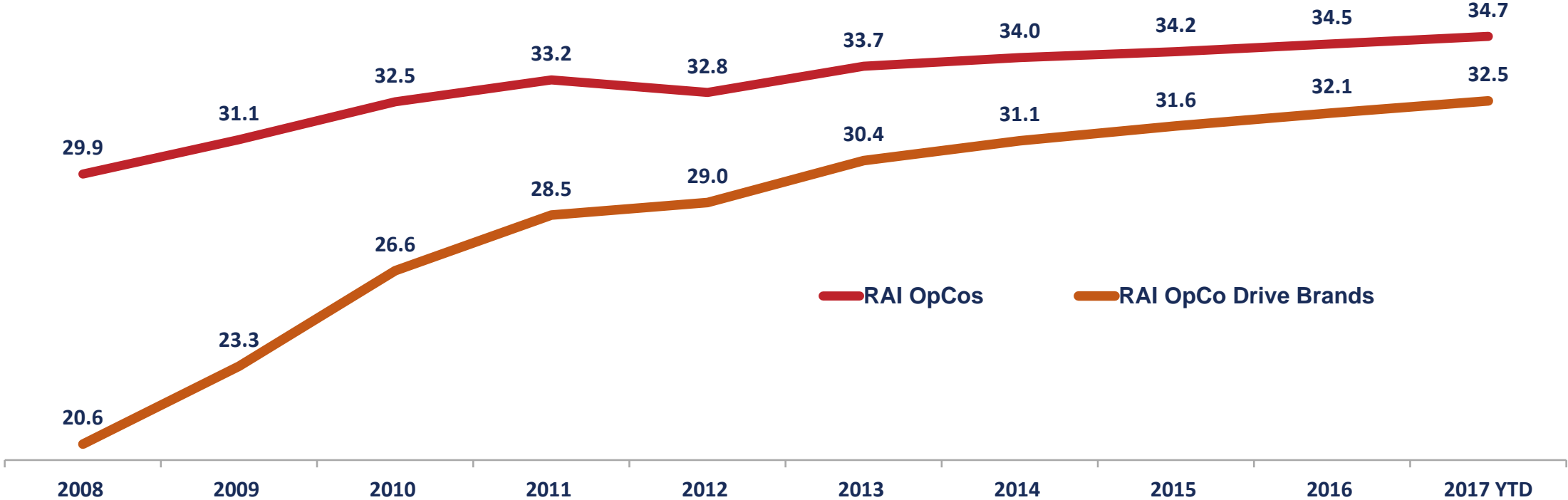
MSA, Inc. STR



# Combustible market share trends

RAI OpCos cigarette market share has grown steadily

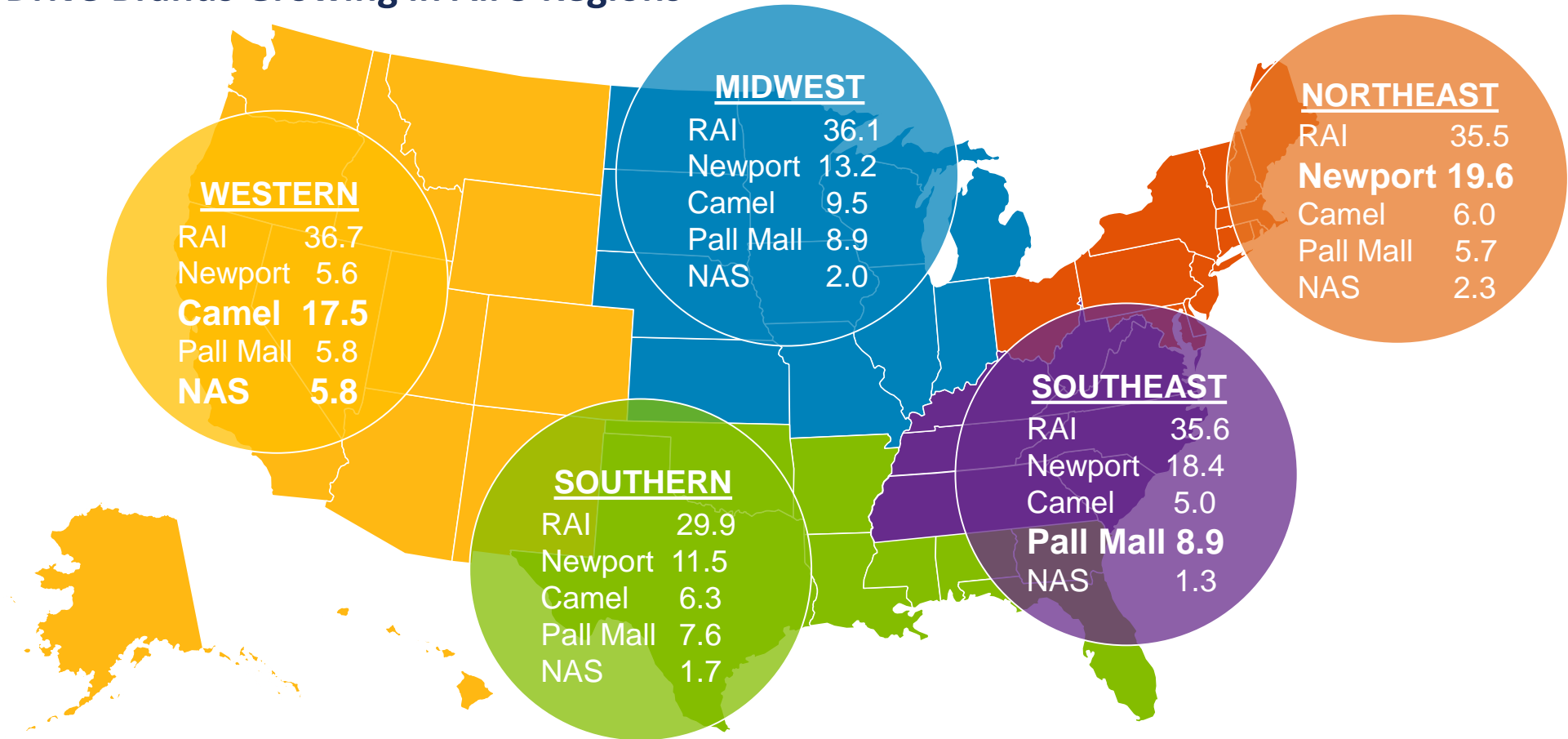
### Cigarettes - Share of Market (STR)



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# Geographically balanced share

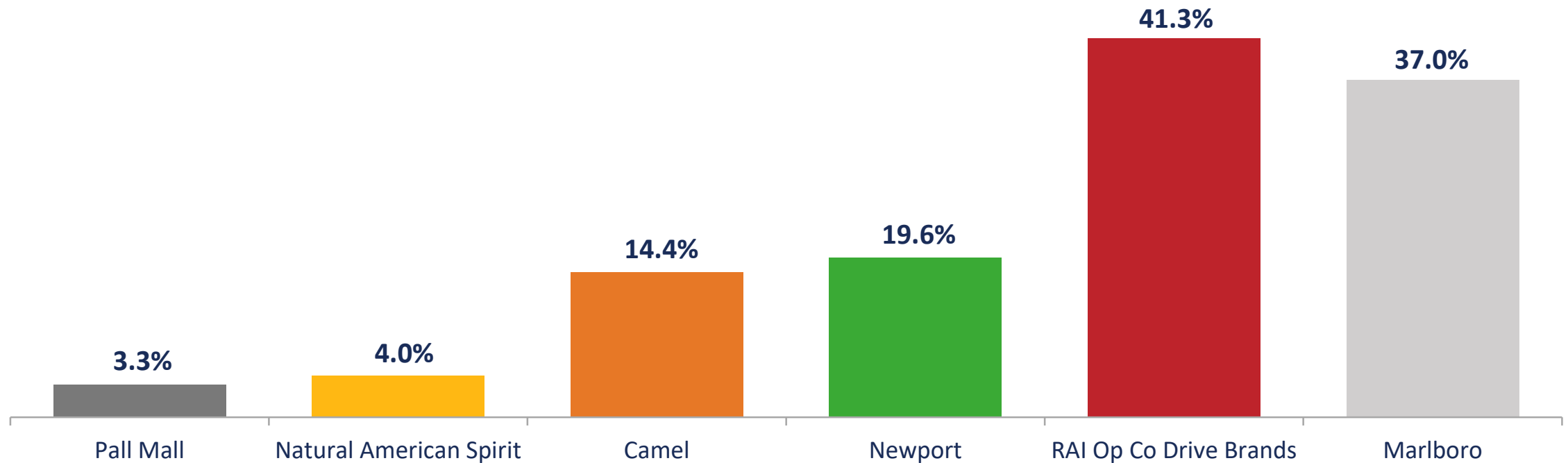
## RAI OpCos Drive Brands Growing in All 5 Regions



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# Adult Smoker Under 35 Leadership

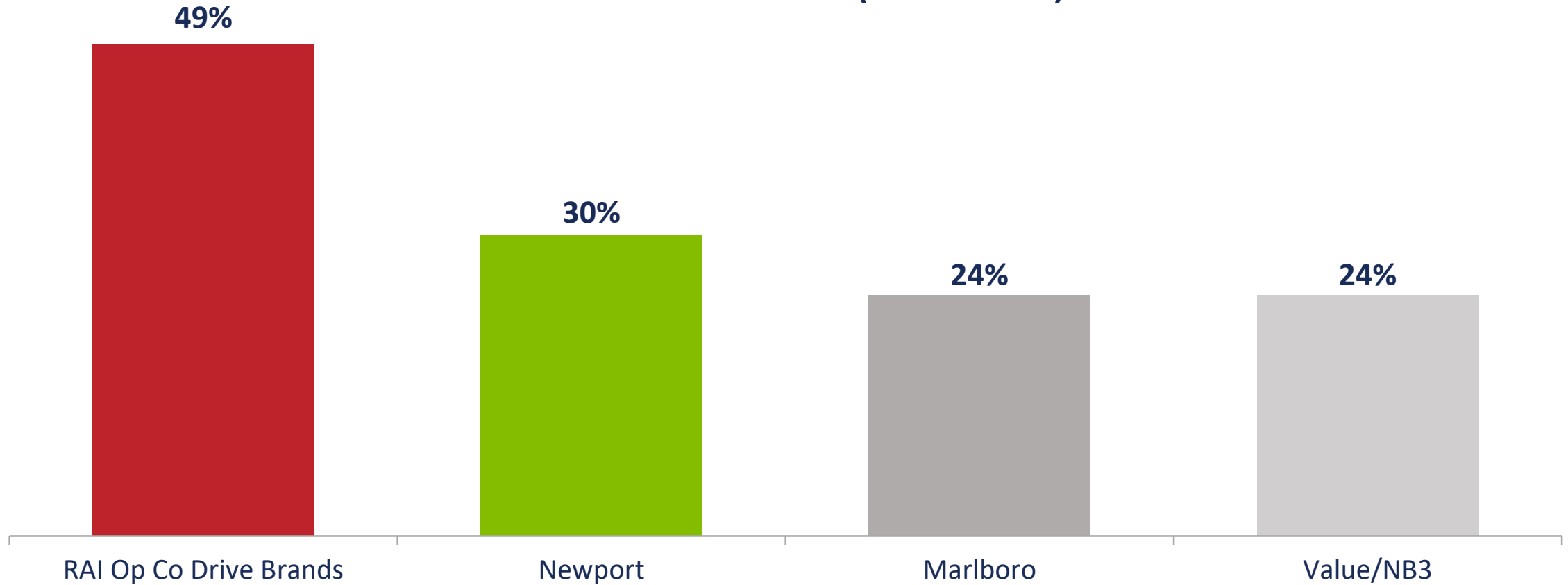
ASU35 Share of Smoker (Usual Brand)



Source: Brand Tracker

# Menthol Leadership

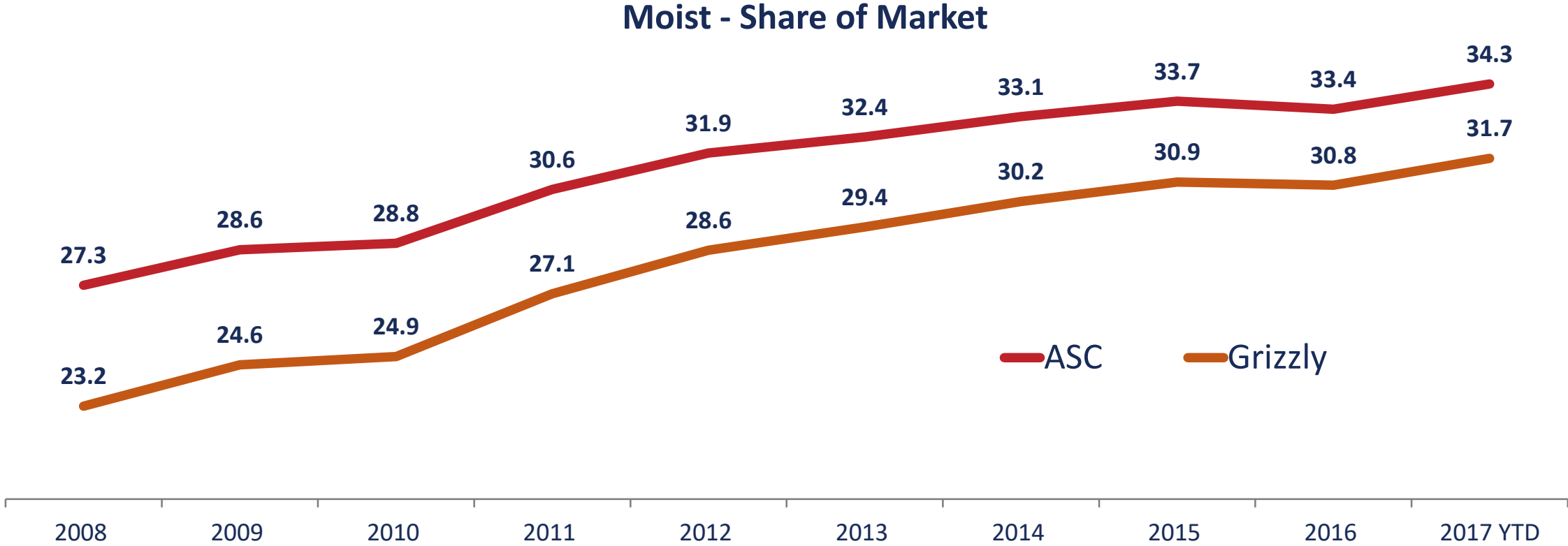
ASU35 Share of Smoker (Usual Brand)



Source: Brand Tracker

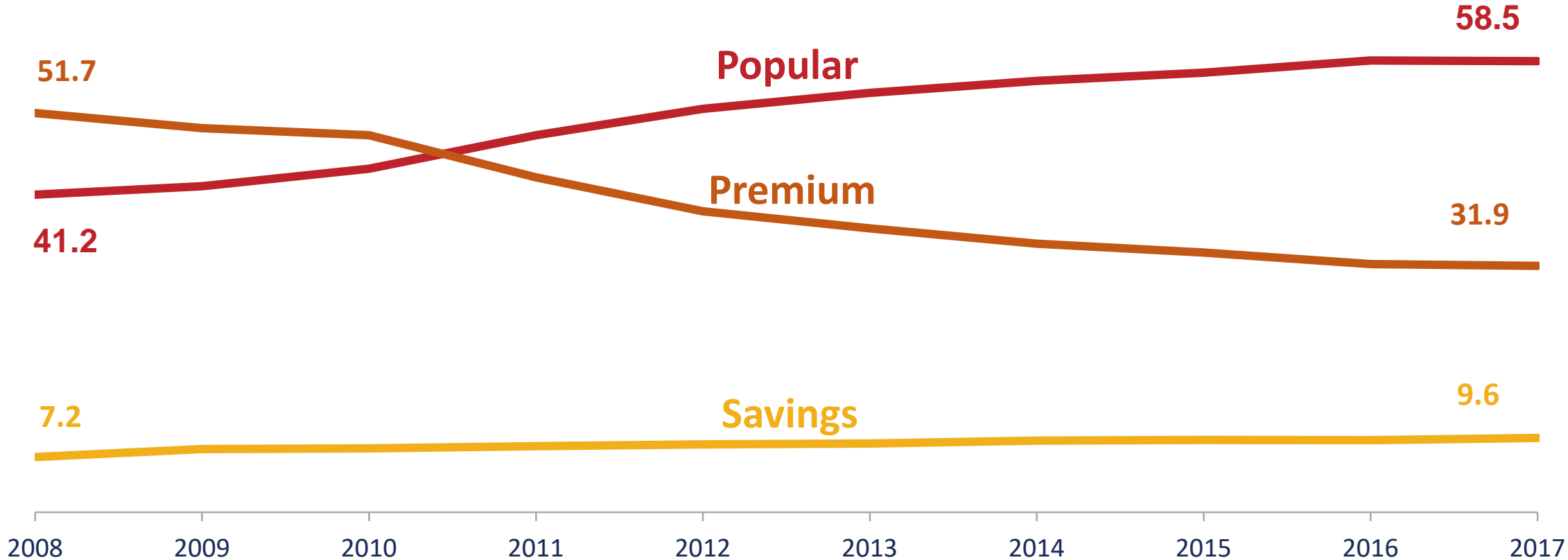
# U.S. MST market share trends

American Snuff market share has grown steadily



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# MST growth is at the Popular price point

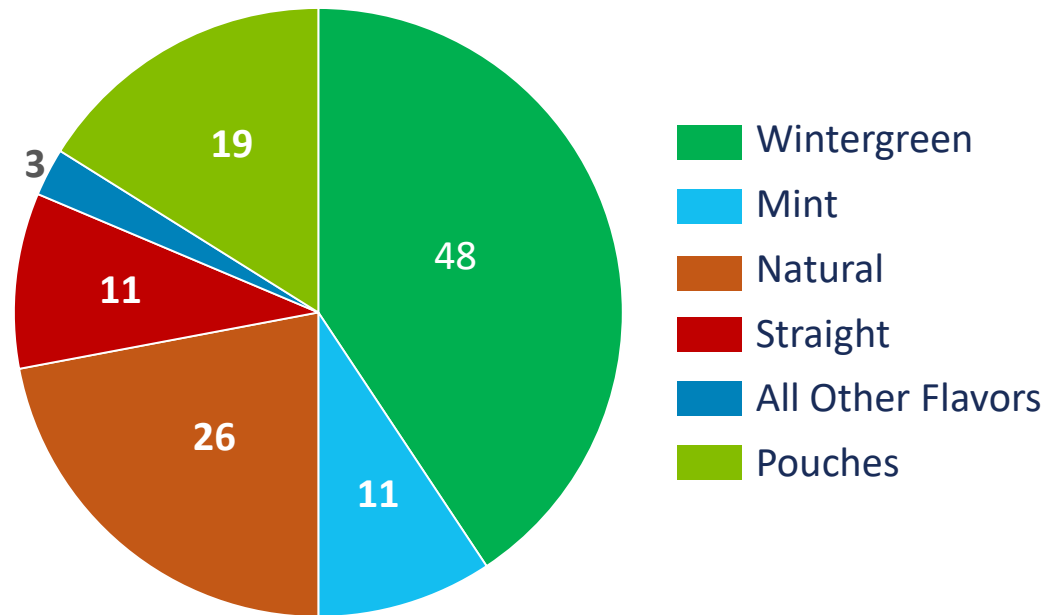


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# Moist category dynamics

## Wintergreen is Largest Flavor Segment

Flavor Segment Size – Share of Moist



**42%** of ATU35 Wintergreen UB

## Grizzly Leads the Wintergreen Category

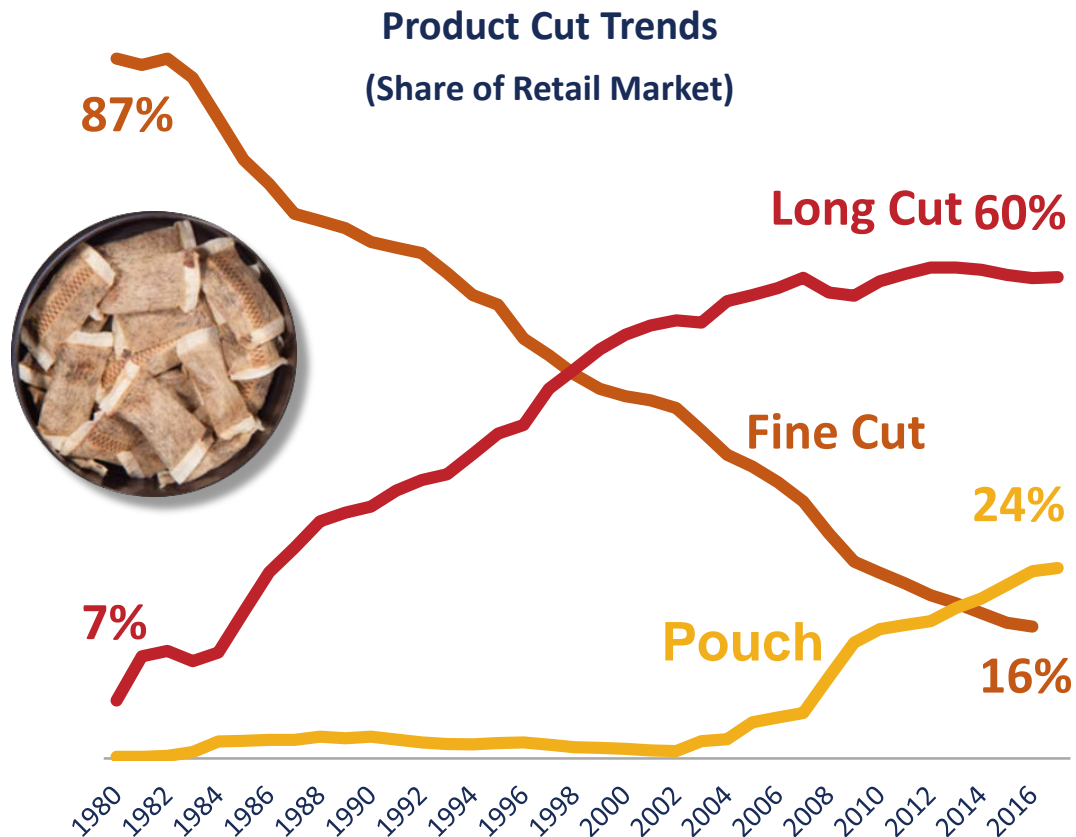
Rank	Brand/Style	SOM
#1	<b>GRIZZLY Long Cut Wintergreen</b>	<b>13</b>
#2	Copenhagen Long Cut Wintergreen	7
#3	<b>GRIZZLY Wintergreen Pouch</b>	<b>7</b>
#4	Skoal Fine Cut Wintergreen	3
#5	<b>KODIAK Long Cut Wintergreen</b>	<b>2</b>

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# Moist category dynamics

Category evolution to more neat & discreet formats

## Pouches are Fastest Growing Segment



## Grizzly Leads the Pouch Category

Rank	Brand/Style	SOM
#1	<b>GRIZZLY Wintergreen Pouch</b>	7
#2	Copenhagen Natural Pouch	3
#3	<b>GRIZZLY Dark Wintergreen Pouch</b>	2
#4	Skoal Mint Pouch	1
#5	Copenhagen Mint Pouch	1

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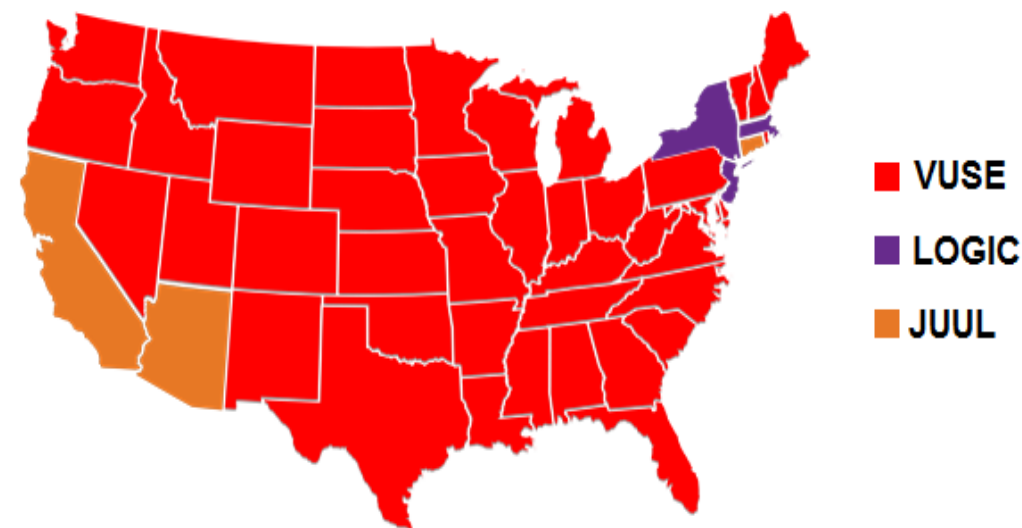


# VUSE is The Clear Market Leader and Has Strong Momentum

## 2017 YTD Results

- Market Share +2.9 ppts.
- Volume +18%
- Revenue +35%
- Gross Profit Significant growth

## VUSE is the Share Leader in 44 states



MSA, Inc. STR Sep YTD-17 & RSD ASP



# RAI Performance & Key Transformation Initiatives

# RAI Operating Companies' 2017 cigarette market share performance\*

YTD 2017 cigarette retail market share through 30 September, 2017

<b>Total OpCo</b> <b>34.7%</b> <b>+0.2 ppts.</b>	<b>Newport</b> <b>14.2%</b> <b>+0.3</b>	<b>Camel</b> <b>8.3%</b> <b>+0.1</b>	<b>Natural American Spirit</b> <b>2.4%</b> <b>+0.2</b>	<b>Pall Mall</b> <b>7.5%</b> <b>-0.2</b>
<b>Drive Brands</b> <b>32.5%</b> <b>+0.4 ppts.</b>				

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# RAI's 1H 2017 financial performance

		Reported	Adjusted	Adjusted 2017 vs. 2016
2Q	EPS	\$0.64	\$0.65	+12.1%
	Operating Margin	46.9%	48.0%	+2.1 pts.
1H	EPS	\$1.19	\$1.21	+12.0%
	Operating Margin	46.0%	46.9%	+1.3 pts.

Reconciliations of Adjusted to Reported (GAAP) results are in the appendix of this presentation

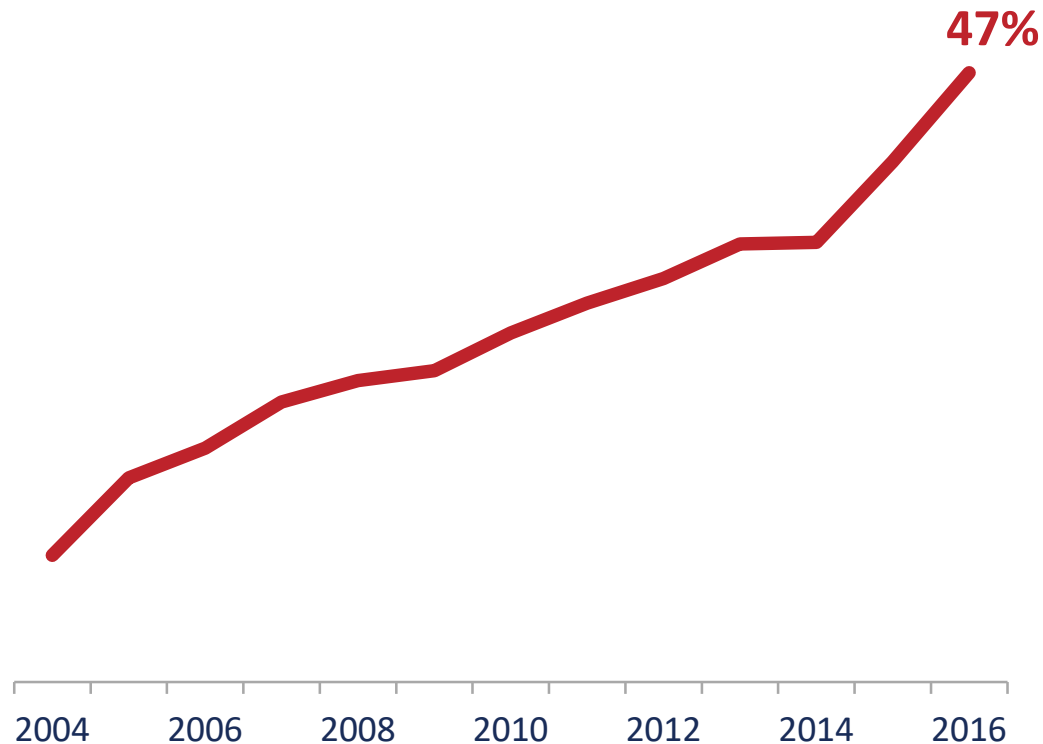
# 1H 2017 operating income

(1H17 op. income in billions 'B' and millions 'M')	Reported	Adjusted	Adjusted 2017 vs. 2016
RAI	\$2.88 B	\$2.94 B	+5.5%
RJRT	\$2.37 B	\$2.40 B	+0.6%
SFNTC	\$313 M	\$313 M	+22.1%
ASC	\$326 M	\$326 M	+20.2%

Reconciliations of Adjusted to Reported (GAAP) results are in the appendix of this presentation

# Proven track record of capturing cost savings...

## RAI Adjusted Operating Margin



Intense focus on efficiency

Continued productivity improvements

Results reflected in strong adjusted operating margin improvement

Reconciliation of GAAP to Adjusted results is in Appendix 1

# ...While delivering tremendous commercial success



## Customers

- 50K net new contracted outlets
- Successful New Territory coverage model



## Retail Programs

- Retail contracts developed to **grow volume** in **high menthol outlets**
- Contract industry volume (CIV) of 90% and EDLP CIV of ~70%



## Synergies & Integration

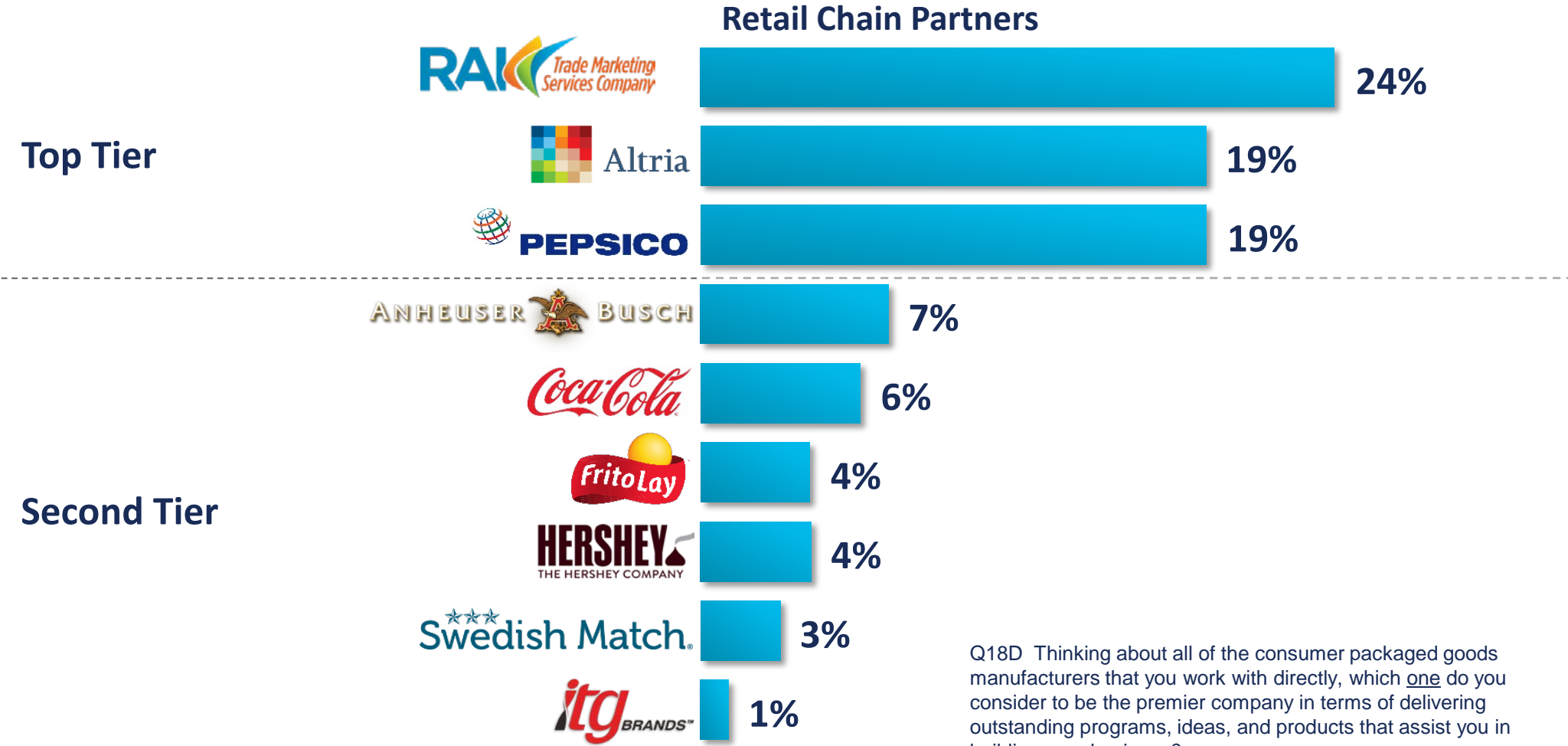
- Delivered \$800 million in synergies from Lorillard acquisition
- Successful integration of Newport with no supply interruptions
- Accelerated retail market share gains – Newport up +0.85 ppts since June 2015
- 2 million+ incremental Consumer Engagements post-transaction

## And increased space/visibility opportunities with our Transformation Centres

- Retail display dedicated to vapor products for RAI OpCo retail customers
- Centers expand VUSE merchandising & product visibility
- Currently being rolled out nationally, presently in 40,000 retail outlets
- 50% of Innovation space is our VUSE portfolio



# RAI Trade Marketing Rated #1 with Retail Partners

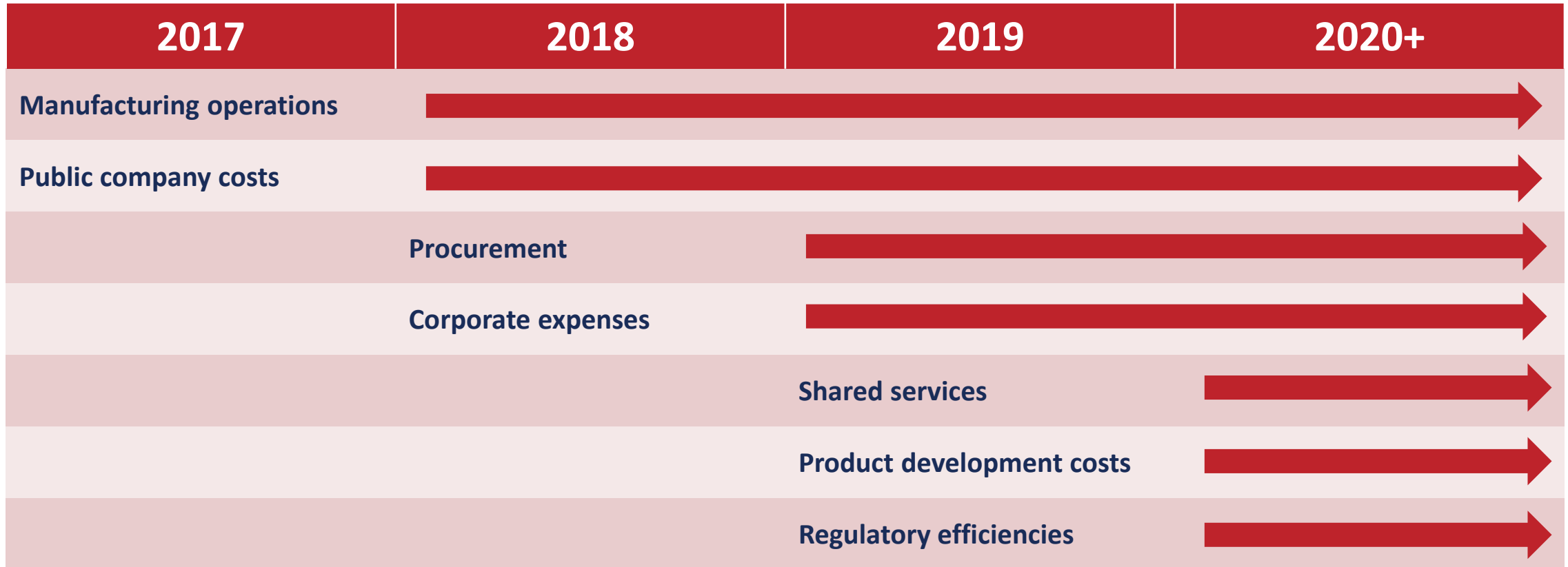


Q18D Thinking about all of the consumer packaged goods manufacturers that you work with directly, which one do you consider to be the premier company in terms of delivering outstanding programs, ideas, and products that assist you in building your business?

# Going forward, there is more opportunity to reduce our cost base...

At least \$400 million of expected synergy realisation by the end of year 3 post-transaction

Synergy Realisation 2017 - 2020



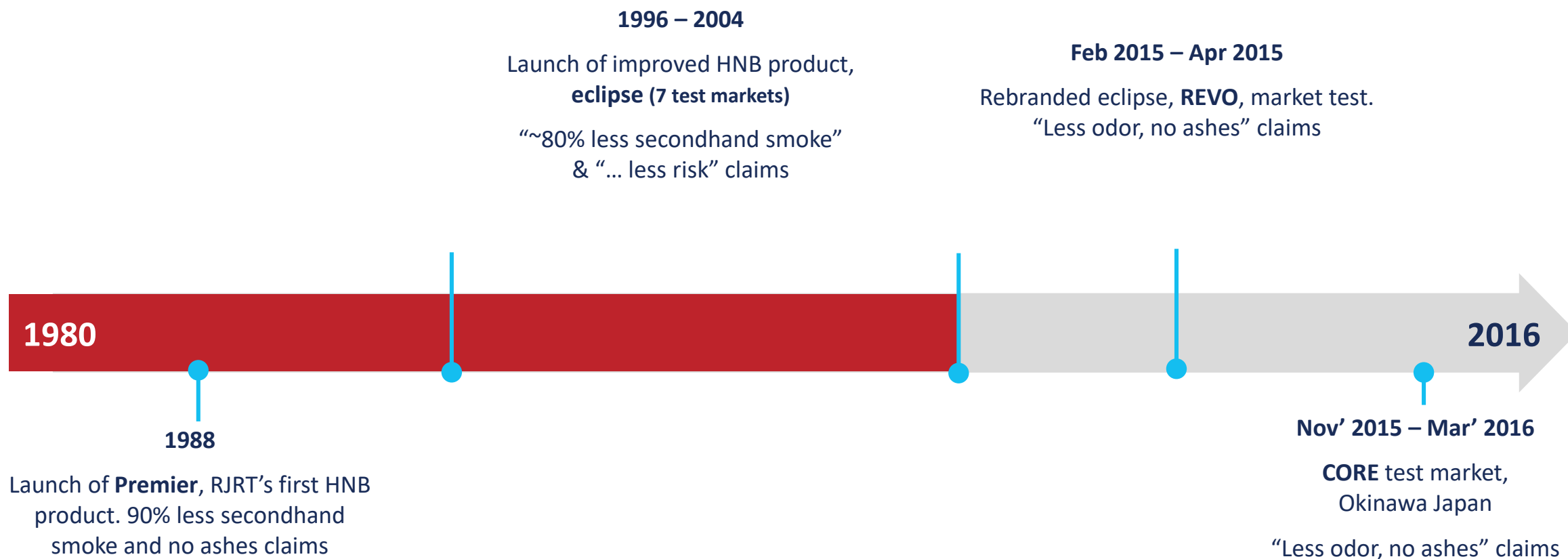
# Additionally, we have made exciting news in transforming tobacco

Camel Snus MRTP applications submitted to FDA on March 30, 2017

- Camel share of snus segment is more than 75%
- Applications cover 6 Camel Snus products and 3 advertisements
- Submission is currently under administrative review by FDA

# RAI companies have a long history in U.S. with Tobacco Heating Products

Historical learnings are being utilised as the Company evaluates future THP opportunities



# Eclipse Substantial Equivalence Applications to FDA

## Applications for an improved version of Eclipse submitted to FDA July/August 2017

- Improved version of the Eclipse heat-not-burn product based on the grandfathered Eclipse product on the market in 2007
- Improvements address sensory characteristics and ease of lighting
- Submission is currently under administrative review by FDA

# RAI/BAT: A powerful combination with vast potential

- **World Class NGP Pipeline & Scientific Capabilities**
- **Leverage Global Scale**
  - Accelerate modernisation
  - More fully utilise assets
  - Procurement opportunities
- **Access to global talent & best practices**



As part of BAT, we are accelerating our transformation journey...



# 2017 Investor Day





## REYNOLDS AMERICAN INC.

## Reconciliation of Reported (GAAP) to Adjusted (Non-GAAP) Results

(Dollars in Millions, Except Per Share Amounts)  
(Unaudited)

RAI management uses "adjusted" (Non-GAAP) measurements to set performance goals and as a means to measure the performance of the overall company, and believes that investors' understanding of the underlying performance of the company's continuing operations is enhanced through the disclosure of these measurements. "Adjusted" (Non-GAAP) results are not, and should not be viewed as, substitutes for "reported" (GAAP) results.

	Three Months Ended June 30,					
	2017			2016		
	Operating Income	Net Income	Diluted EPS	Operating Income	Net Income	Diluted EPS
<b>Reported (GAAP) results</b>	\$ 1,556	\$ 919	\$ 0.64	\$ 1,415	\$ 796	\$ 0.56
Reported (GAAP) results include the following:						
Implementation costs	33	21	0.02	3	2	-
Engle Progeny cases	9	6	-	48	30	0.02
Transaction-related costs	10	8	0.01	-	-	-
2003 NPM Adjustment Claim	(17)	(11)	(0.01)	-	-	-
Tax Items	-	(8)	(0.01)	-	-	-
Total adjustments	35	16	0.01	51	32	0.02
<b>Adjusted (Non-GAAP) results</b>	<u>\$ 1,591</u>	<u>\$ 935</u>	<u>\$ 0.65</u>	<u>\$ 1,466</u>	<u>\$ 828</u>	<u>\$ 0.58</u>
	Six Months Ended June 30,					
	2017			2016		
	Operating Income	Net Income	Diluted EPS	Operating Income	Net Income	Diluted EPS
<b>Reported (GAAP) results</b>	\$ 2,882	\$ 1,699	\$ 1.19	\$ 7,557	\$ 4,361	\$ 3.05
Reported (GAAP) results include the following:						
Gain on divestitures	-	-	-	(4,861)	(3,023)	(2.11)
Implementation costs	33	21	0.02	28	18	0.01
Engle Progeny cases	16	10	0.01	61	38	0.02
Transaction-related costs	23	19	0.01	-	-	-
2003 NPM Adjustment Claim	(17)	(11)	(0.01)	-	-	-
Debt and financing costs <sup>(1)</sup>	-	-	-	-	155	0.11
Tax Items	-	(8)	(0.01)	-	-	-
Total adjustments	55	31	0.02	(4,772)	(2,812)	(1.97)
<b>Adjusted (Non-GAAP) results</b>	<u>\$ 2,937</u>	<u>\$ 1,730</u>	<u>\$ 1.21</u>	<u>\$ 2,785</u>	<u>\$ 1,549</u>	<u>\$ 1.08</u>

<sup>(1)</sup> For the six months ended June 30, 2016, debt and financing costs of \$155 million are presented net of an income tax benefit of \$88 million.

"All financial statements and financial information provided by or with respect to RAI (and/or the RAI Group) are prepared on the basis of U.S. GAAP and constitute the primary financial statements or financial information. To the extent any financial information provided by or with respect to RAI (and/or the RAI Group) is prepared on a basis other than U.S. GAAP, such information is provided as an explanation of, or supplement to, RAI's (and/or the RAI Group's) primary U.S. GAAP based financial statements and information and is for management purposes."

**REYNOLDS AMERICAN INC.**  
**Reconciliation of Reported (GAAP) to Adjusted (Non-GAAP) Operating Income by Segment**  
(Dollars in Millions)  
(Unaudited)

The RJR Tobacco segment consists of the primary operations of R.J. Reynolds Tobacco Company, the second-largest tobacco company in the United States and which also manages a contract manufacturing business.

The Santa Fe segment consists of the primary operations of Santa Fe Natural Tobacco Company, Inc., which manufactures Natural American Spirit cigarettes and other tobacco products.

The American Snuff segment consists of the primary operations of American Snuff Company, LLC, the second-largest smokeless tobacco products manufacturer in the United States.

Management uses "adjusted" (Non-GAAP) measurements to set performance goals and as a means to measure the performance of the company, and believes that investors' understanding of the underlying performance of the company's continuing operations is enhanced through the disclosure of these measurements. "Adjusted" (Non-GAAP) results are not, and should not be viewed as, substitutes for "reported" (GAAP) results.

	Three Months Ended June 30,					
	2017			2016		
	RJR Tobacco	Santa Fe	American Snuff	RJR Tobacco	Santa Fe	American Snuff
<b>Reported (GAAP) operating income</b>	\$ 1,291	\$ 169	\$ 169	\$ 1,216	\$ 133	\$ 138
Reported (GAAP) results include the following:						
Implementation costs <sup>(1)(2)</sup>	27	-	-	2	-	-
Engle Progeny cases	9	-	-	48	-	-
2003 NPM Adjustment Claim	(17)	-	-	-	-	-
Total adjustments <sup>(3)</sup>	19	-	-	50	-	-
<b>Adjusted (Non-GAAP) operating income</b>	<u>\$ 1,310</u>	<u>\$ 169</u>	<u>\$ 169</u>	<u>\$ 1,266</u>	<u>\$ 133</u>	<u>\$ 138</u>
	Six Months Ended June 30,					
	2017			2016		
	RJR Tobacco	Santa Fe	American Snuff	RJR Tobacco	Santa Fe	American Snuff
<b>Reported (GAAP) operating income</b>	\$ 2,374	\$ 313	\$ 326	\$ 2,323	\$ 256	\$ 271
Reported (GAAP) results include the following:						
Implementation costs <sup>(1)(2)</sup>	27	-	-	3	-	-
Engle Progeny cases	16	-	-	61	-	-
2003 NPM Adjustment Claim	(17)	-	-	-	-	-
Total adjustments <sup>(3)</sup>	26	-	-	64	-	-
<b>Adjusted (Non-GAAP) operating income</b>	<u>\$ 2,400</u>	<u>\$ 313</u>	<u>\$ 326</u>	<u>\$ 2,387</u>	<u>\$ 256</u>	<u>\$ 271</u>

<sup>(1)</sup> For the three and six months ended June 30, 2017, RAI and its operating companies recorded aggregate implementation cost adjustments of \$33 million, including \$6 million in corporate and all other.

<sup>(2)</sup> For the three and six months ended June 30, 2016, RAI and its operating companies recorded aggregate implementation cost adjustments of \$3 million and \$28 million, respectively, including \$1 million and \$25 million in corporate and all other.

<sup>(3)</sup> For the three and six months ended June 30, 2017, RAI and its operating companies recorded aggregate transaction-related cost adjustments of \$10 million and \$23 million, respectively, which are included in corporate costs.

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