

Transformational Regulation and the External Environment

Jerome Abelman
Director, Legal & External Affairs



Important notice

This presentation in relation to British American Tobacco p.l.c. (“BAT”) and its subsidiaries has been prepared solely for use at this presentation. The presentation is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident or located in any jurisdiction outside of the United States and the United Kingdom where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

The material in this presentation is provided for the purpose of giving information about the Company to investors only and is not intended for general consumers. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this material is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. The material in this presentation is not provided for tobacco product advertising, promotional or marketing purposes. This material does not constitute and should not be construed as constituting an offer to sell, or a solicitation of an offer to buy, any of our products. Our products are sold only in compliance with the laws of the particular jurisdictions in which they are sold.

The information contained in this presentation does not purport to be comprehensive and has not been independently verified. Certain industry and market data contained in this presentation has come from third party sources. Third party publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of accuracy or completeness of such data.

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. 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.

Tobacco Products: Examples of Ongoing Topics in the Regulatory and External Environment

EU TOBACCO
PRODUCTS
DIRECTIVE

PLAIN
PACKAGING

INGREDIENTS AND
MARKETING
RESTRICTIONS

FISCAL
ENVIRONMENT

ILLICIT
TRADE

LITIGATION



Next Generation Products: Views Emerging Supporting Concept of a Risk Continuum and Progressive Regulation



Public Health England

E-cigarettes

Current evidence

Are E-cigs safe?
E-cigarettes are significantly less harmful (95%) to health than smoking tobacco



FDA Scott Gottlieb, M.D.
Commissioner
U.S. FOOD & DRUG ADMINISTRATION



Royal College of Physicians



Nicotine without smoke

Tobacco harm reduction

A report by the Tobacco Advisory Group of the Royal College of Physicians

April 2016



Public Health England

STOP SMOKING WITH AN E-CIGARETTE THIS STOPTOBER

E-cigarettes are the most popular stop smoking aid in England and there's growing evidence that they can help people quit smoking cigarettes for good. Join in the 28-day Stoptober challenge and stop with all the support you need.

Ask inside today.

STOP TOBER

BECAUSE THERE'S ONLY ONE YOU


FDA RULES FOR ELECTRONIC NICOTINE DELIVERY SYSTEM (ENDS) SALES

Are you taking the necessary steps to prevent underage tobacco use?

- Check photo ID of everyone under age 27 who attempts to purchase ENDS.
- Only sell ENDS to customers age 18 and older.**
- Do NOT give away free samples of ENDS, including their components and parts.
- Do NOT sell e-cigarettes in a vending machine unless in an adult-only facility.**

POWERED BY THE CENTER FOR TOBACCO PRODUCTS

Examples of ENDS include e-cigarettes, pipe pens, e-hookahs, e-pipes, personal vaporizers and electronic pipes. The term "product" is defined as a device that is used to deliver nicotine to the user, whether ENDS or not. See our website www.fda.gov/tobacco for a full list of requirements for the sale of ENDS.



However, Laws and Regulations Vary. Examples:

**EU TPD II
Regulatory
Framework**



**Comprehensive
NGP Rules In
Development**



**Legislation
Under
Review**



**NGPs
Remain
Prohibited**



**Embraced
Risk
Continuum**



**THP allowed
E-cigarettes
Prohibited**



**Legislation
Under
Review**



**NGPs
Remain
Prohibited**



Taking a Leading Role in Publicly Raising Issues Regarding Next Generation Products



Progressive Regulation of Next Generation Products: Key Topics

ACCEPTANCE OF RISK
CONTINUUM MODEL



ROBUST SCIENTIFIC
EVIDENCE



FREEDOM TO INNOVATE



ROBUST PRODUCT &
RESPONSIBLE MARKETING
STANDARDS



INFORMED ADULT
CHOICE



FISCAL TREATMENT
SUPPORTING NGPs



Summary of the Excise Environment



TOBACCO HEATED PRODUCTS

Tobacco Heated Products should be taxed lower than cigarettes

- › Stand-alone and delineated from other tobacco products
- › Recognises the risk continuum model

VAPOUR

E-cigarettes should not be subject to excise

However if subject to excise:

- › Stand-alone product category delineated from tobacco products including THPs
- › Low specific, calculated on the volume of e-liquid
- › Recognises the risk continuum model

FISCAL DEVELOPMENTS



GLOBAL: THPs have different systems in place and generally maintain a tax advantage versus combustibles, however the current tax gaps will likely evolve



JAPAN: Japanese government is considering raising taxes on THPs



KOREA: THP excise (ICT) likely will be increased on Dec 1 to 90% of FMC. Other tax components will possibly follow suit



EU: Tax treatment of THPs & e-cigarettes is at the discretion of MS:

- › THPs: 4 MS have introduced a tax specifically on the category, whilst 13 MS apply the current OTP / fine cut rates on tobacco weight
- › e-cigarettes: 10 MS tax by volume of e-liquid /ml

Impact assessment on the possible revision of the Excise Directive completed:
Possible recommendation to postpone revisions

External Environment: Summary of Quebec Class Actions and Provincial Recoupment Cases in Canada

QUEBEC CLASS ACTION CASES

- Two actions filed in 1998; Trial from March 2012 to December 2014
- In May 2015, the trial court ruled that defendants failed to warn smokers of the dangers of smoking. Awarded CAD\$15.5 billion against Canadian subsidiaries of BAT (Imperial Tobacco Canada), PMI and JTI. Imperial's share approximately CAD\$10 billion and Imperial ordered to deposit CAD\$758 million in security.
- Defendants appealed to the Quebec Court of Appeal, heard in November 2016 and a decision is expected at any time
- Range of outcomes is possible; however, requests for leave to appeal to Supreme Court of Canada highly likely

HEALTH CARE RECOUPEMENT CASES

- Ten health care cost recovery cases filed by provincial governments; All cases are still in the pre-trial discovery phase, with the first trial approx. two years away and any appeals of the trials potentially taking a further two years
- Five of the cases seeking approx. CAD\$263 – 299 billion

FOR ALL CASES

- A wide range of outcomes is of course possible including, eg, use of Canadian regulations such as “CCAA”

Note: *Other litigation cases are pending in Canada but are at very early stages*

Transformational Regulation and the External Environment: Closing Remarks

➤ For tobacco products, BAT companies will continue to manage an environment of regulatory and external challenges, including litigation

➤ For Next Generation Products, BAT companies are seeking progressive regulation enabling informed consumer choice

➤ In the US, Reynolds American companies actively engaging with the FDA regarding the regulation of *both* tobacco and NGPs



US FDA

