

Transformational Regulation and the External Environment

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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.

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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















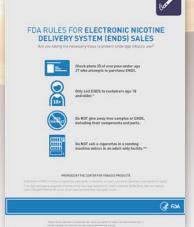
Next Generation Products: Views Emerging Supporting Concept of a Risk Continuum and Progressive Regulation















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



