



BRITISH AMERICAN
TOBACCO

Investor Day | 14 March 2019

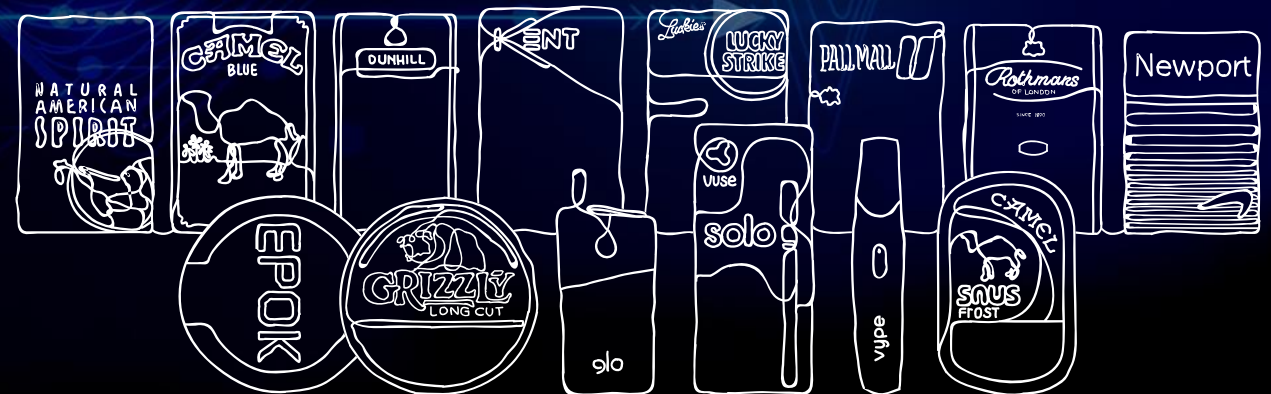


BRITISH AMERICAN
TOBACCO

Combustibles: winning through focus and sharpened execution

Chris Sijtsma

Group Head of Combustibles



Important Information

The information contained in 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 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.

References in this presentation to ‘British American Tobacco’, ‘BAT’, ‘Group’, ‘we’, ‘us’ and ‘our’ when denoting opinion refer to British American Tobacco p.l.c. and when denoting tobacco business activity refer to British American Tobacco Group operating companies, collectively or individually as the case may be.

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

This presentation does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any BAT shares or other securities. This presentation contains certain forward-looking statements, made within the meaning of Section 21E of the United States Securities Exchange Act of 1934, regarding our intentions, beliefs or current expectations concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the economic and business circumstances occurring from time to time in the countries and markets in which the Group operates.

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,” “target” and similar expressions.

It is believed that the expectations reflected in this presentation are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated.

The forward-looking statements reflect knowledge and information available at the date of preparation of this presentation and BAT undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

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 impact of competition from illicit trade; the impact of adverse domestic or international legislation and regulation; changes in domestic or international tax laws and rates; adverse litigation and dispute outcomes and the effect of such outcomes on the Group’s financial condition; changes or differences in domestic or international economic or political conditions; adverse decisions by domestic or international regulatory bodies; the impact of market size reduction and consumer down-trading; translational and transactional foreign exchange rate exposure; the impact of serious injury, illness or death in the workplace; the ability to maintain credit ratings and to fund the business under the current capital structure; the inability to develop, commercialise and roll-out Potentially Reduced-Risk Products; and changes in the market position, businesses, financial condition, results of operations or prospects of the Group.

Important Information

Forward-looking Statements (continued)

Additional information concerning these and other factors can be found in BAT's filings with the U.S. Securities and Exchange Commission ("SEC"), including the Annual Report on Form 20-F to be filed on 15 March 2019 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 the British American Tobacco website www.bat.com.

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser. Readers are cautioned not to place undue reliance on such forward-looking statements.

No Profit or Earnings Per Share Forecasts

No statement in this presentation is intended to be a profit forecast and no statement in this presentation 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.

Audience

The material in this presentation is provided for the purpose of giving information about BAT and its subsidiaries to investors only and is not intended for general consumers. BAT, its directors, officers, 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 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.

Additional Information

All financial statements and financial information provided by or with respect to the US or Reynolds American Inc. ("RAI") are initially prepared on the basis of U.S. GAAP and constitute the primary financial statements or financial records of the US business/RAI. This financial information is then converted to International Financial Reporting Standards as issued by the IASB and as adopted by the European Union (IFRS) for the purpose of consolidation within the results of the BAT Group. To the extent any such financial information provided in this presentation relates to the US or RAI it is provided as an explanation of, or supplement to, RAI's primary U.S. GAAP based financial statements and information.

Our vapour product Vuse, and oral products Grizzly, Camel Snus and Kodiak, which are only sold in the US, are subject to FDA regulation and no reduced-risk claims will be made to these products without agency clearance.

Revision

For presentation purposes within this presentation, all prior periods have been revised to be consistent with the current reporting structure. All of the information in this presentation is in respect to continuing operations, revised for the fully retrospective adoption of IFRS 15.

CHRIS SIJTSMA >>>

GROUP HEAD OF COMBUSTIBLES

30 years
Industry
experience

*10 years Regional
Marketing Director
Europe, Africa,
Middle East*

*Group Head of
Trade Marketing
and Distribution*

*Area Director
Central Europe*



1

In 2018 Combustibles account for **86%** of duty-paid Tobacco and New Categories **Industry revenue**

2

Combustible category remains dynamic with significant opportunity for further value growth

3

Group market share growth of **106bps** over the last 3 years, with Drive Brands growth of **385bps**

4

We have a **great portfolio** of brands with **leading equities powered by innovation**

5

We will continue to focus on the **key growth segments** of Non-full flavour, Slimmer and Freshness & Stimulation by **targeted investments**

6

...and drive for **efficiencies** through further **portfolio consolidation** and **rationalisation**

7

We are well-prepared for **regulation**

Note: Group market share includes US, change shown for Jan. 2016 vs Dec. 2018. Combustibles contribution to duty paid Tobacco and New Categories Industry revenue as an internal company estimate.

150,000,000

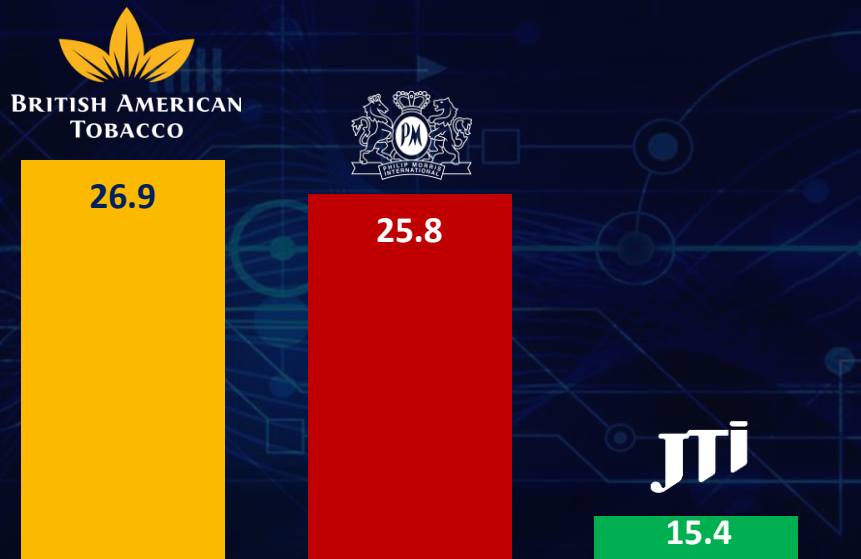
ADULT CONSUMERS CHOOSE OUR BRANDS, EVERY DAY



Source: company data, BAT Combustibles volumes including US & T40 ADC Track 2018 | Note: BAT only owns the Camel and Natural American Spirit brands in the United States

BAT is the leading and the only growing international tobacco company

SHARE OF MARKET, %. FY'18
(T40 incl US FMC only)

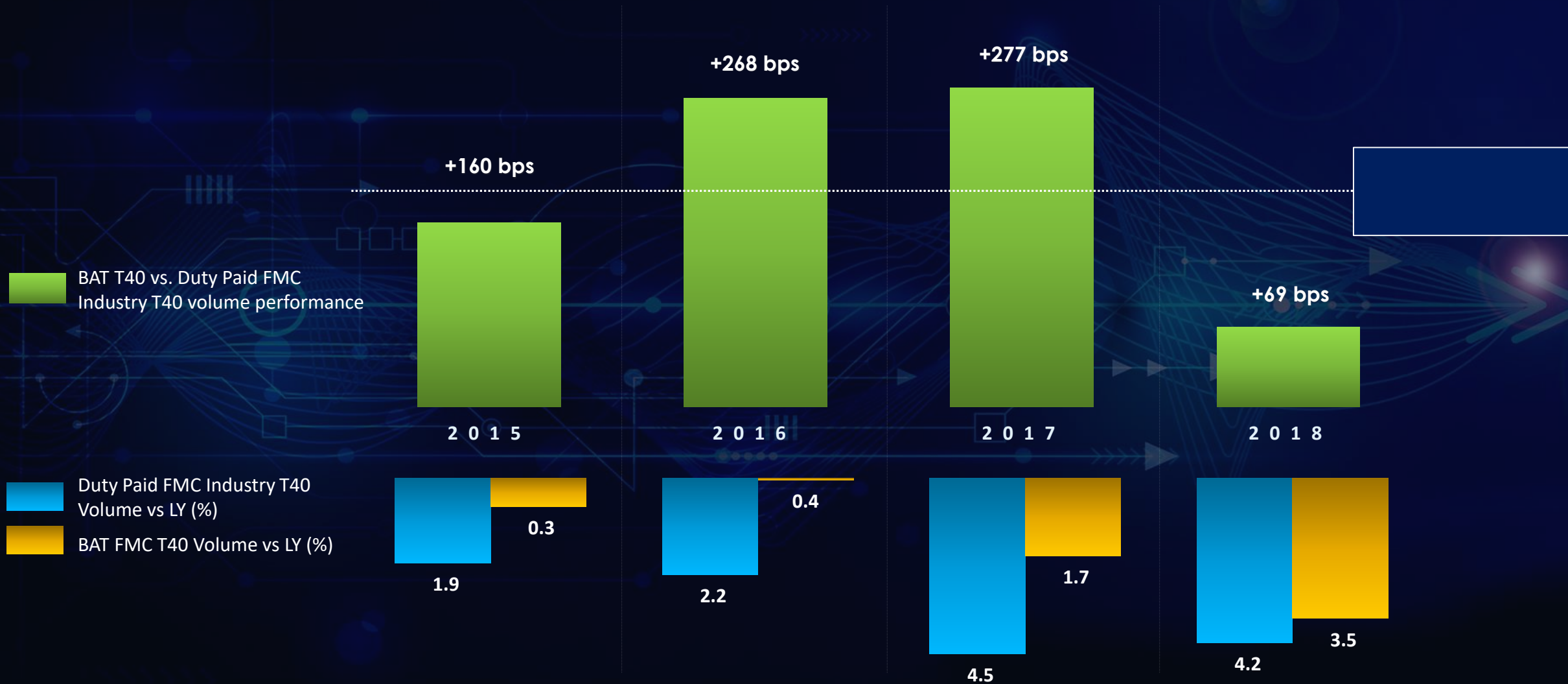


SHARE OF MARKET, %. Jan'16 vs Dec'18
(T40 incl US FMC only)



Source: T40 Retail Audit data including US and excluding Iran, Algeria, Morocco, Nigeria, Romania & Egypt where reliable Retail Audit coverage is not available. Retail Audit data is collected across the identical set of T40 markets for all players within FMC category only.

BAT volume performance is consistently better than the industry



Source : Company data. T40 DP FMC Industry Volumes presented on a representative basis inclusive of acquired businesses in the 2017 comparator period as though those businesses had been included in the consolidated results for the whole of that comparator period

Strong drive brands powered by innovation

DRIVE BRANDS MARKET SHARE PERFORMANCE FY'18 vs FY'17 (bps)
(T40 incl US FMC only)



Source: T40 Retail Audit data including US and excluding Iran, Algeria, Morocco, Nigeria, Romania & Egypt where reliable Retail Audit coverage is not available. Retail Audit data collected across the identical set of T40 markets for all players within FMC category only. Note: BAT only owns the Camel and Natural American Spirit brands in the United States

Drive brands share grows in all regions

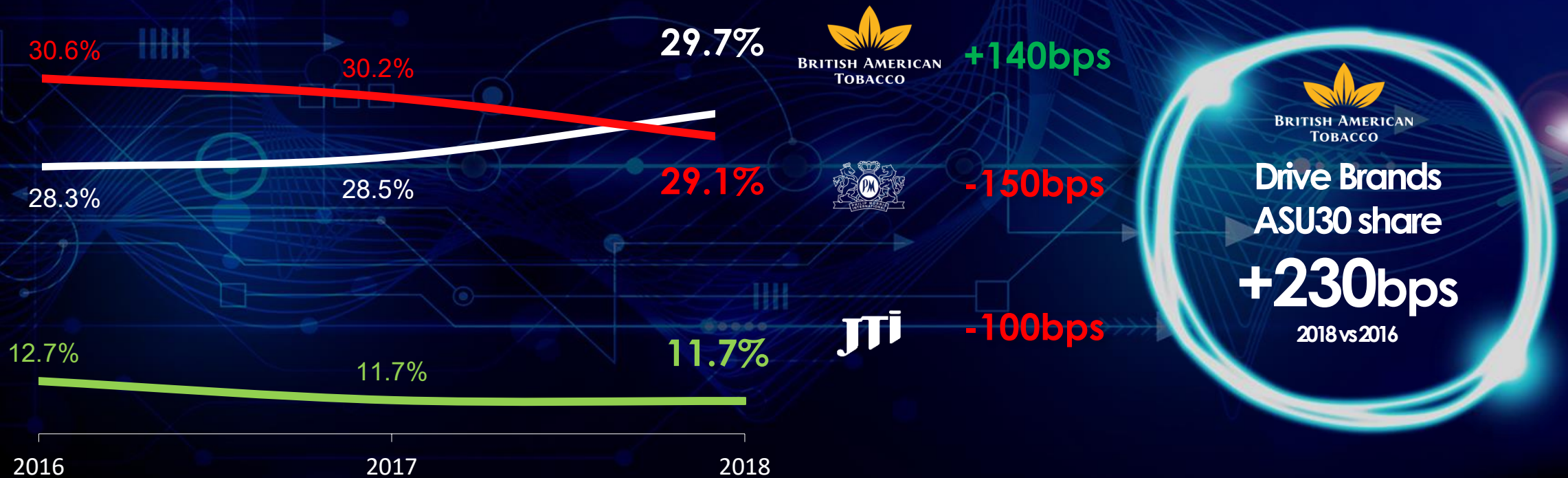
REGIONAL OFF TAKE DRIVE BRANDS MARKET SHARE CHANGE | Jan'16 vs Dec'18
(T40 incl US FMC only)



Source: T40 Retail Audit data including US and excluding Iran, Algeria, Morocco, Nigeria, Romania & Egypt where reliable Retail Audit coverage is not available. Retail Audit data collected across the identical set of T40 markets for all players within FMC category only. | **Note:** USA brand data for information purposes only. Reynolds partnership as of July 2017 | **Note:** Effective 1 January 2018, the Group, excluding the Group's associate undertakings, was organized in 4 regions: The United States (US Reynolds American Inc.), Asia Pacific and Middle East (APME), Americas and Sub Saharan Africa (AmSSA) and Europe and North Africa (ENA). For presentation purposes within these presentations, all prior periods have been revised to be consistent with the current reporting structure.

BAT is leading amongst cigarette brand trialists

BAT AND KEY COMPETITION T40 DYNAMIC SPACE SHARE TREND (ex. US)



Source: Track T40 excluding USA, 2016-2018. Dynamic space refers to the share of smokers who have purchased, i.e. actively tried, more than one brand in the last 3 months.

Note: Data collected for all players refers to the same metric and markets as the data presented for BAT

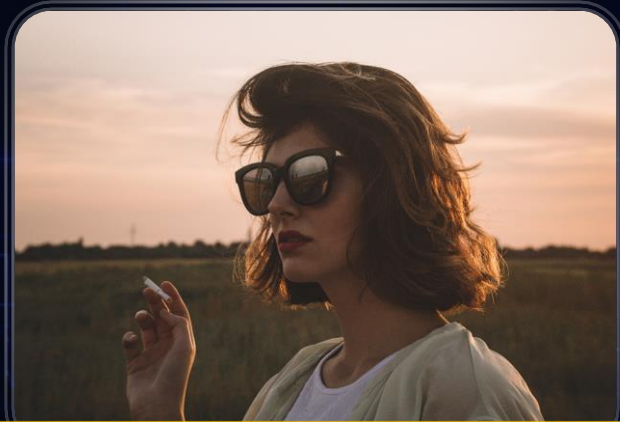
A portfolio of high equity brands

COMPETITIVE EQUITY POSITION



Source: Equity index from Track 2018, Imagery association scores from Segmentation (USA) | Note: BAT only owns the Camel and Natural American Spirit brands in the United States

Brand building @ BAT



CONSUMER FIRST



READY FOR REGULATION



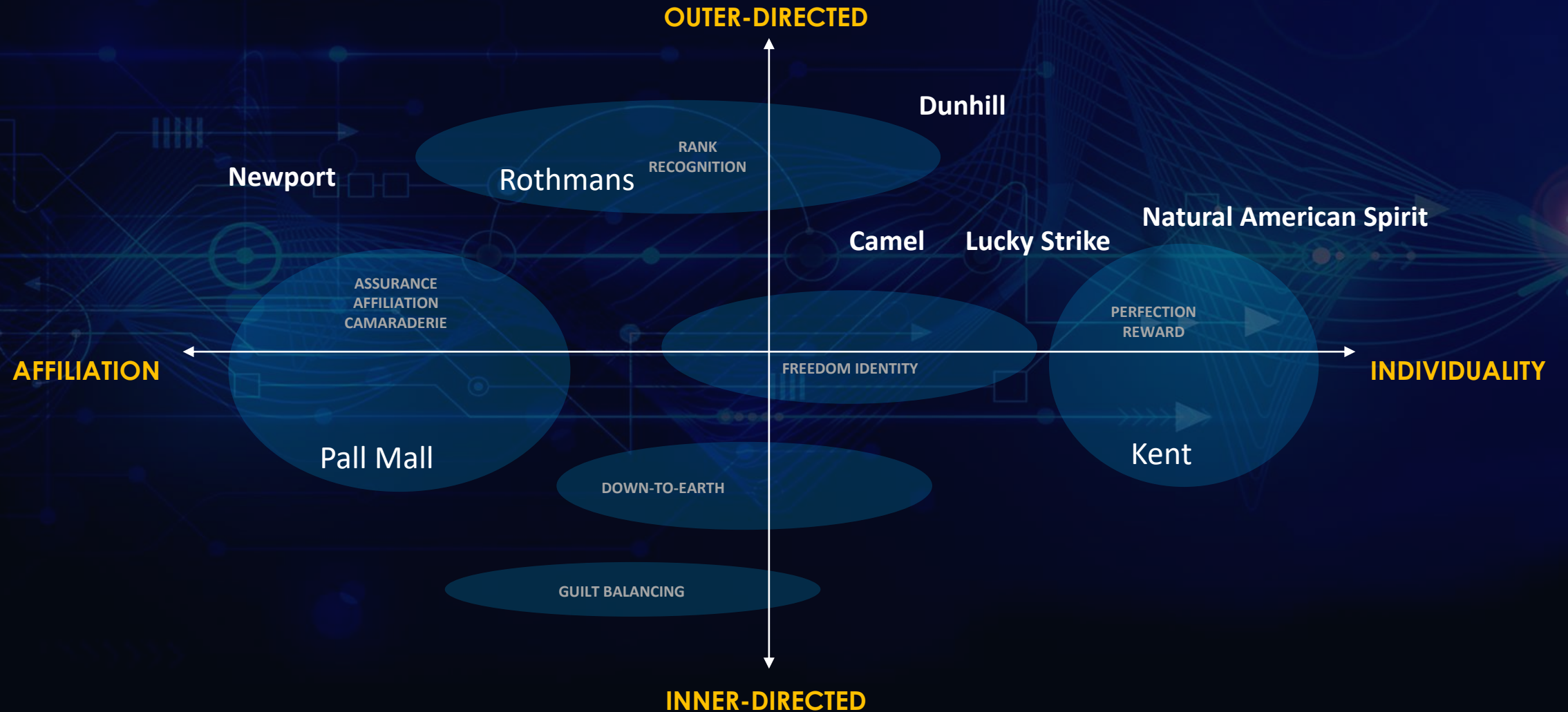
BRANDS WITH SCALE



WORLD CLASS TRADE MARKETING AND DISTRIBUTION

Note: Consumers refer to adult tobacco consumers

Our portfolio & brand positioning is driven by superior consumer understanding



We stretch our brands to be relevant to different geographies and consumer segments

RUSSIA: NANO

ROMANIA: DS & F&S

TURKEY: DS & KS

CHILE: CORE PRM & VFM

JAPAN: SS

We stretch our brands to be relevant to different geographies and consumer segments

MEXICO

COLOMBIA

INDONESIA

GERMANY

JAPAN

Focus growth segments are in the heart of our strategy, powered by innovations

Focus growth segments account for

83%

of switchers and trialists

> 90%

of BAT brand activities focus on strategic segments

NFF	F&S	SLIMMER
CONSCIOUS CONSUMPTION	SENSORIAL DISCOVERY	SELF EXPRESSION



BRITISH AMERICAN TOBACCO		
COMPETITOR 1	THE BEST NEW PRODUCT INNOVATION SUCCESS RATE	COMPETITOR 2
2	1	3

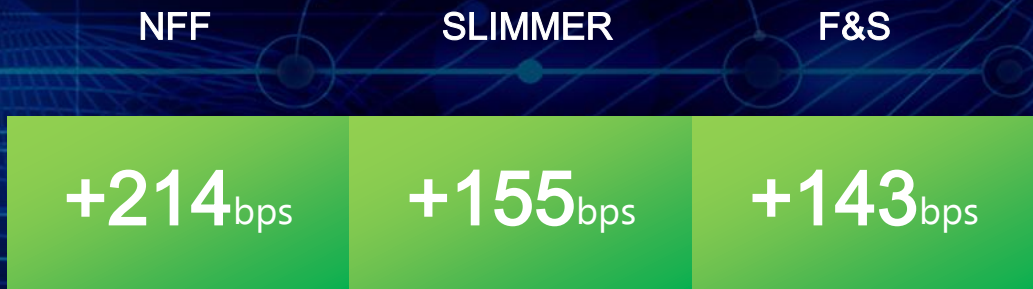
Source: Company data: Track 2018, Company operational planning

Source: Company data: New Product Innovation analysis, based on Retail Audit data from January 2015 to September 2018. Competitor 1 refers to PMI. Competitor 2 refers to ITG

Drive brands performance in the key growth segments is ahead of the industry benchmark

FOCUS GROWTH SEGMENTS SHARE CHANGE Average 2018 vs 2016


BRITISH AMERICAN TOBACCO
BAT drive brands share of segment change, Avg. 18 vs. 16



Industry
Industry share of segment change, Avg. 18 vs. 16



▶ **Future innovation plans aligned to the growth segments**

Source: : T40 Retail Audit data including US and excluding Iran, Algeria, Morocco, Nigeria, Romania & Egypt where reliable Retail Audit coverage is not available. Retail Audit data collected across the identical set of T40 markets for all players within FMC category only.

BAT offers superior and differentiated product experiences

NUTTY

SMOKEY

COFFEE LIKE

SWEET

HAY LIKE

BREAD LIKE

WOODY



Enduring commitment to quality

Existing processing techniques

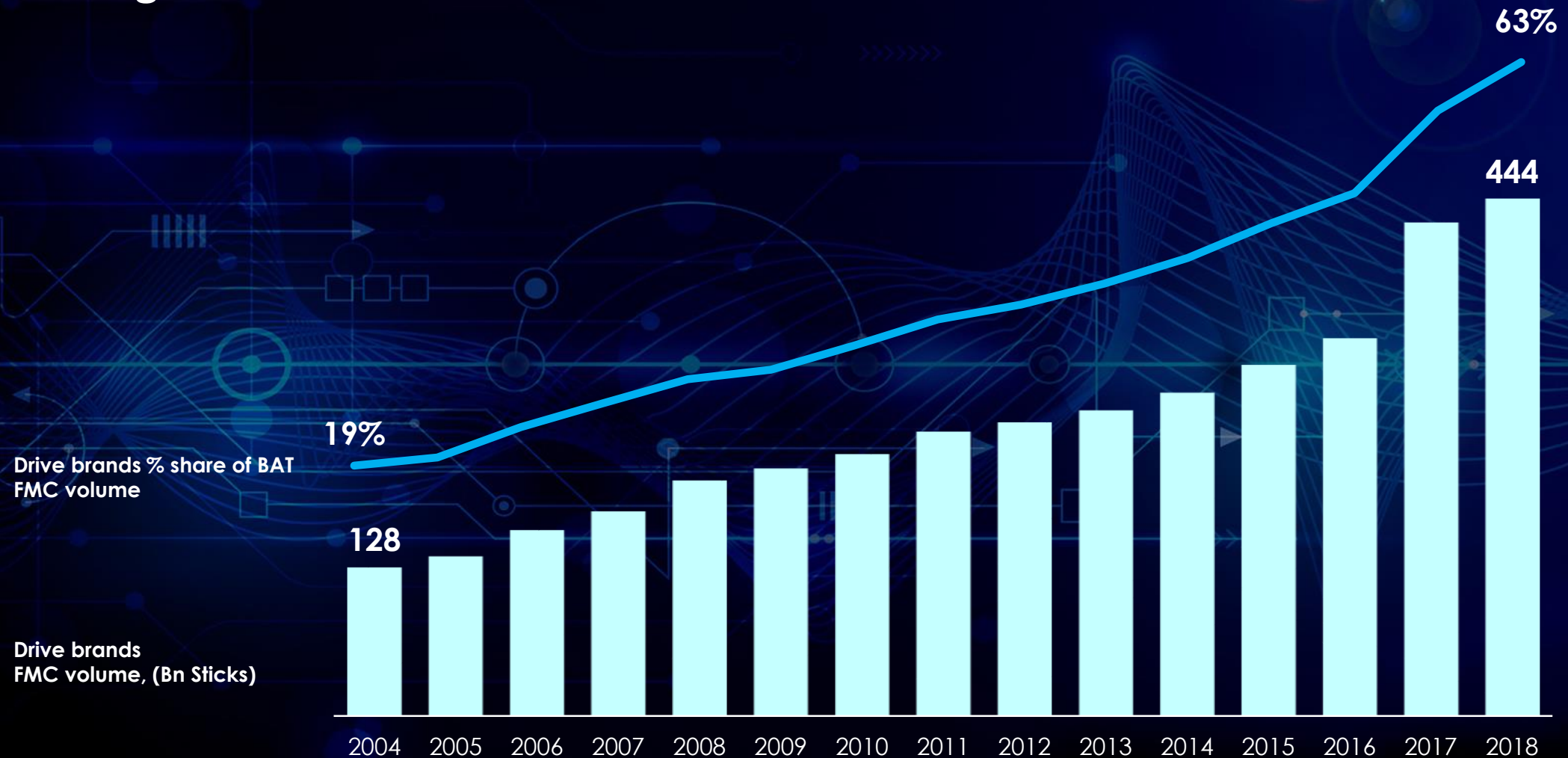
BAT proprietary processing techniques

Combustibles R&D Centre



Unique & differentiated product experiences

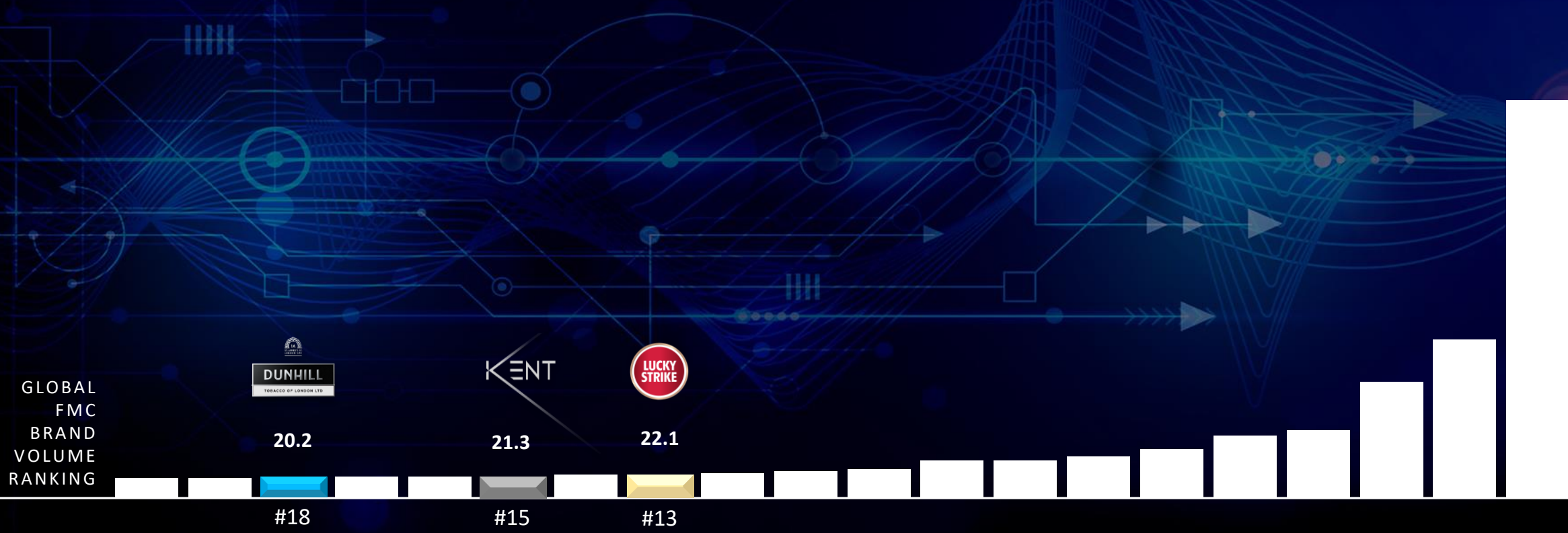
Building brands at scale



Source: Company data. Volumes data is on a representative basis inclusive of acquired businesses in the 2017 comparator period as though those businesses had been included in the consolidated results for the whole of that comparator period

Top ranking brands globally

TOP 20 GLOBAL FMC BRANDS RANKING BY VOLUME (bn) - 1999
(Excluding China, India and US)

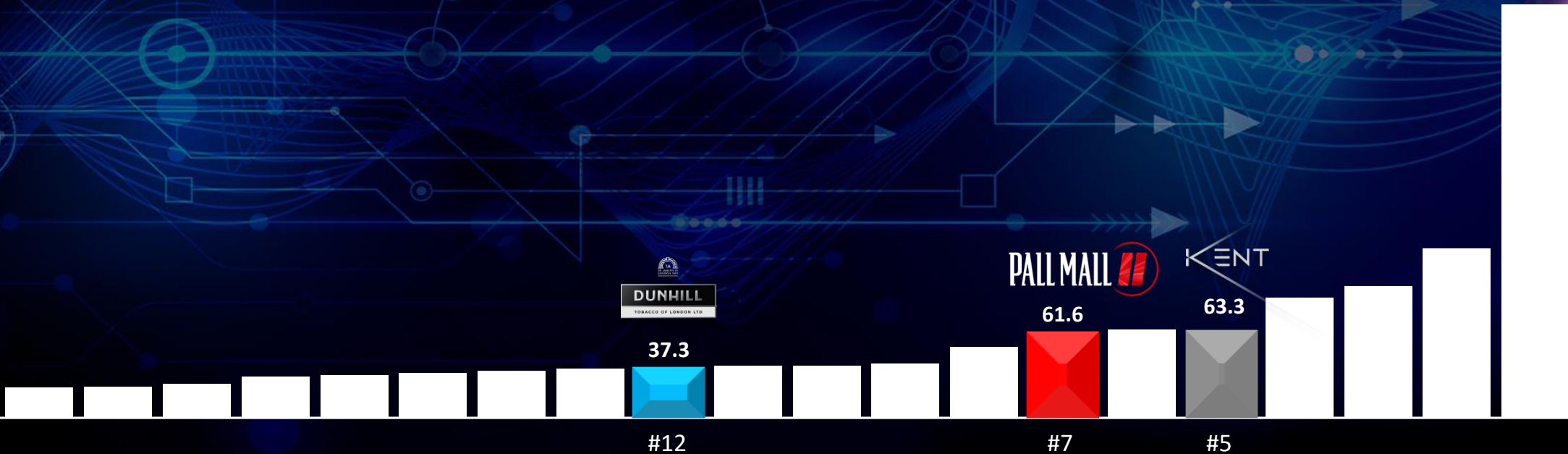


Source: Company data: internal estimates

Top ranking brands globally

TOP 20 GLOBAL FMC BRANDS RANKING BY VOLUME (bn) - 2008
(Excluding China, India and US)

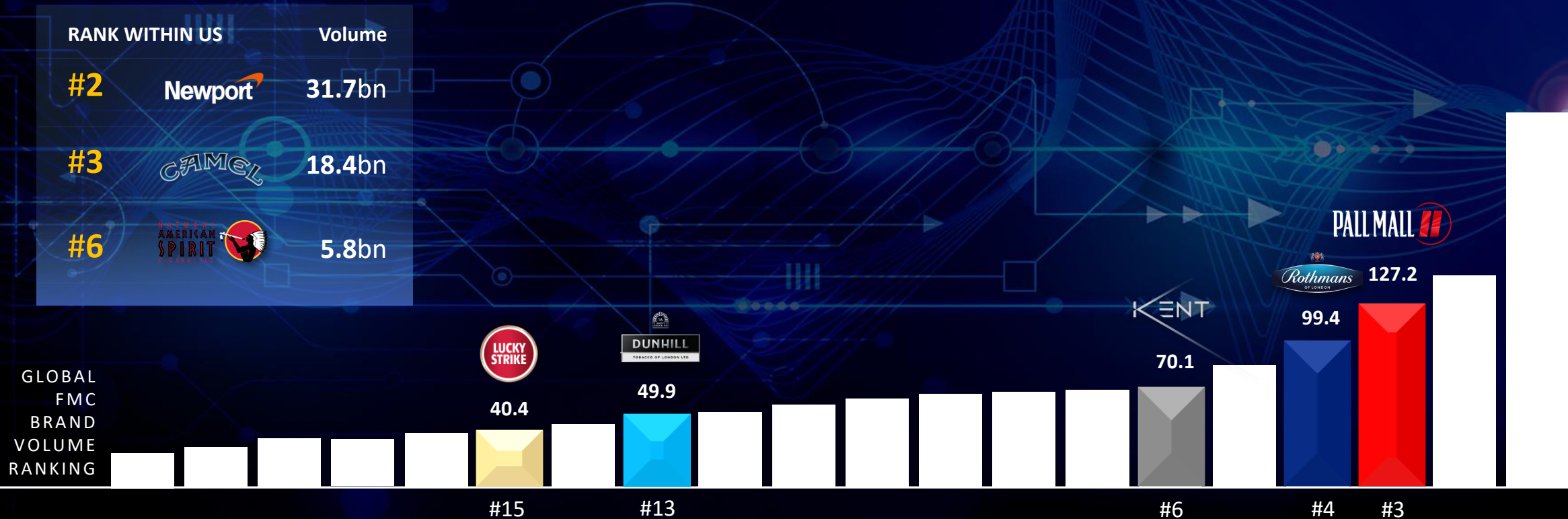
GLOBAL
FMC
BRAND
VOLUME
RANKING



Source: Company data: internal estimates

Top ranking brands globally

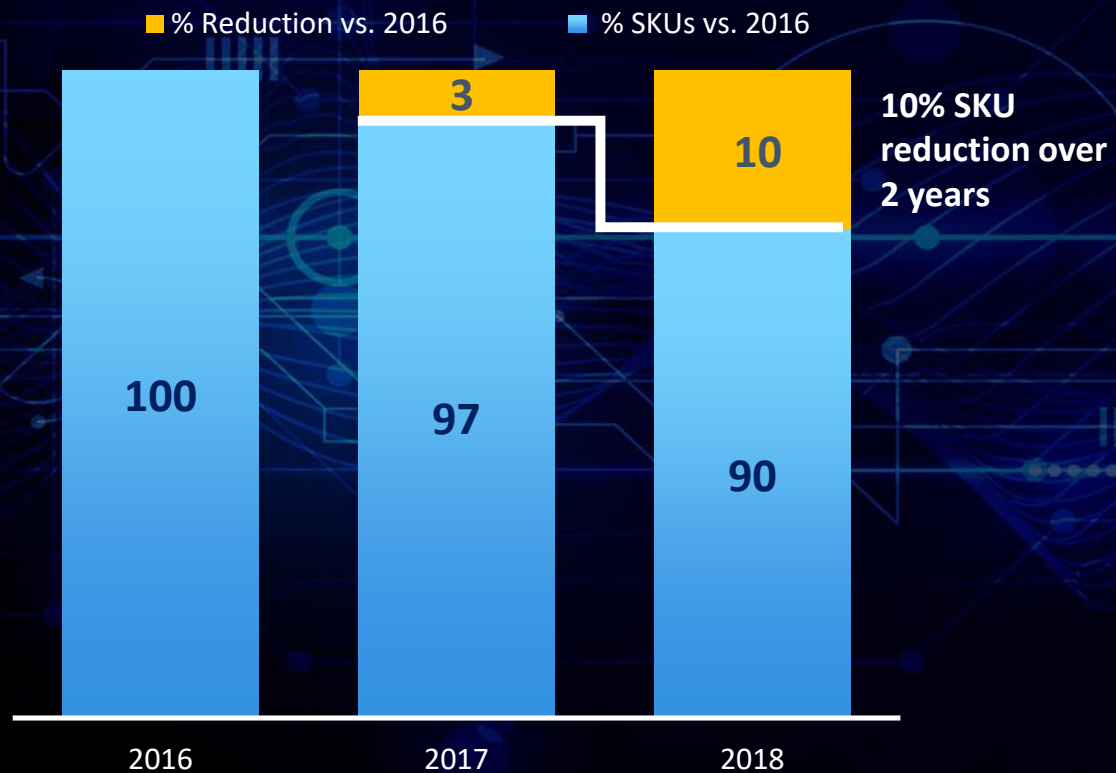
TOP 20 GLOBAL FMC BRANDS RANKING BY VOLUME (bn) - 2018
(Excluding China, India and US)



Source: Company data; internal estimates. Pall Mall volumes in 2018 include US.
Note: BAT only owns the Camel and Natural American Spirit brands in the United States

Improve focus and execution

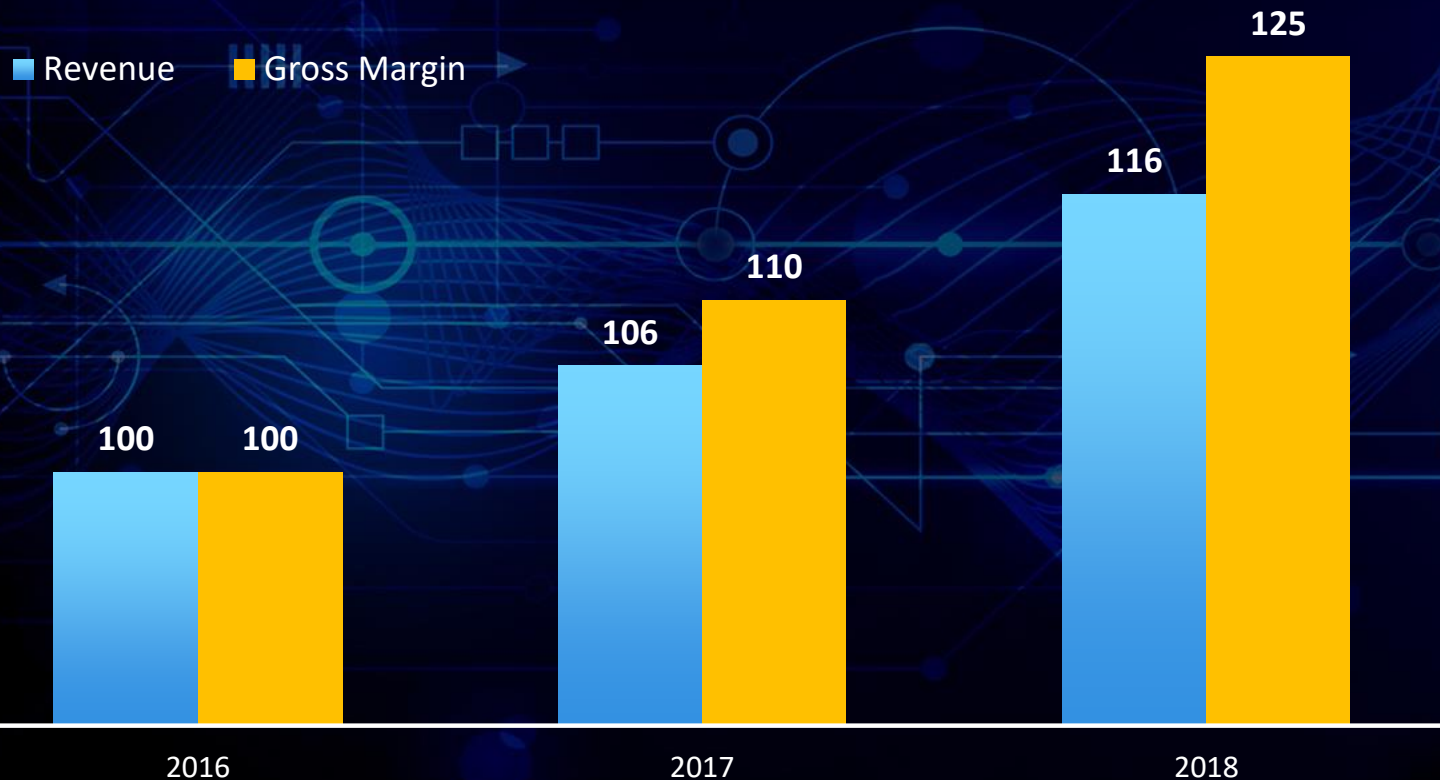
SKUs RATIONALISATION TREND %



Source: Company data. Brand Family Group considered as proxy for SKUs

And leverage efficiencies

DRIVE BRANDS REVENUE & GROSS MARGIN GROWTH RATES,
INDEXED TO 2016, excluding US



KEY HIGHLIGHTS

- ✓ Revenue growth CAGR of +7.9%
- ✓ Gross Margin CAGR of +11.6%
- ✓ Revenue to Gross Margin conversion improving over time

Source: 2016 actuals, 2017 and 2018 pre IFRS15. 2017 constant rates. BAT FMC Strategic Combustible brands excluding US

World-class Trade Marketing and Distribution

GLOBAL REACH

Available
in
>11mn
outlets

DIRECT COVERAGE

Total **direct to store**
share of volume
coverage
53%

QUALITY RETAIL ACTIVATION

Quality Retail
Activation

Source: Company data. Direct coverage is defined as the directly serviced outlets

Regulation challenge remains but we are well prepared

**TRACK
& TRACE**



**PLAIN
PACKAGING**



**MENTHOL
BAN**

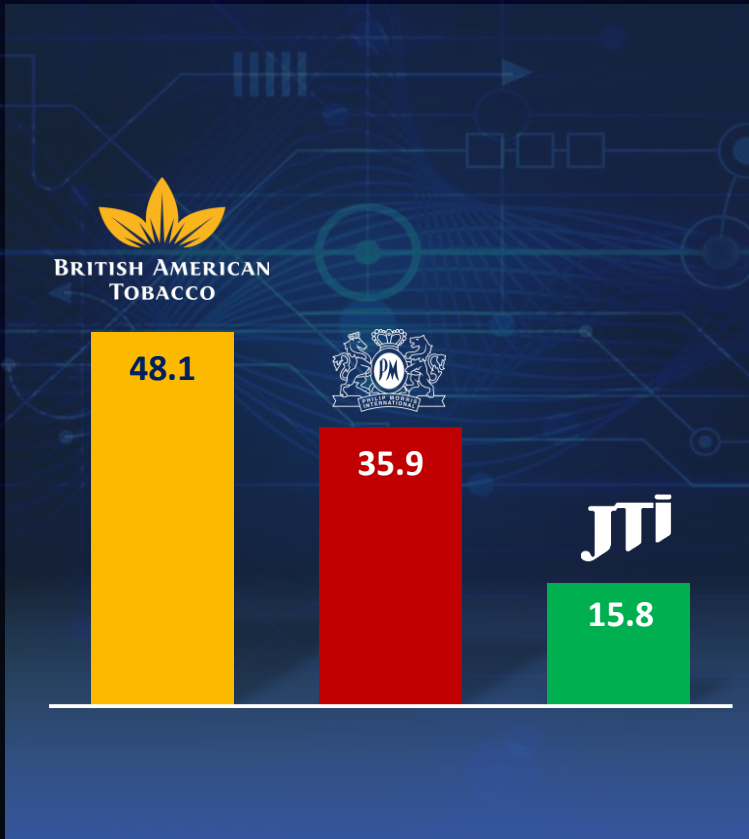


What did we learn in Canada

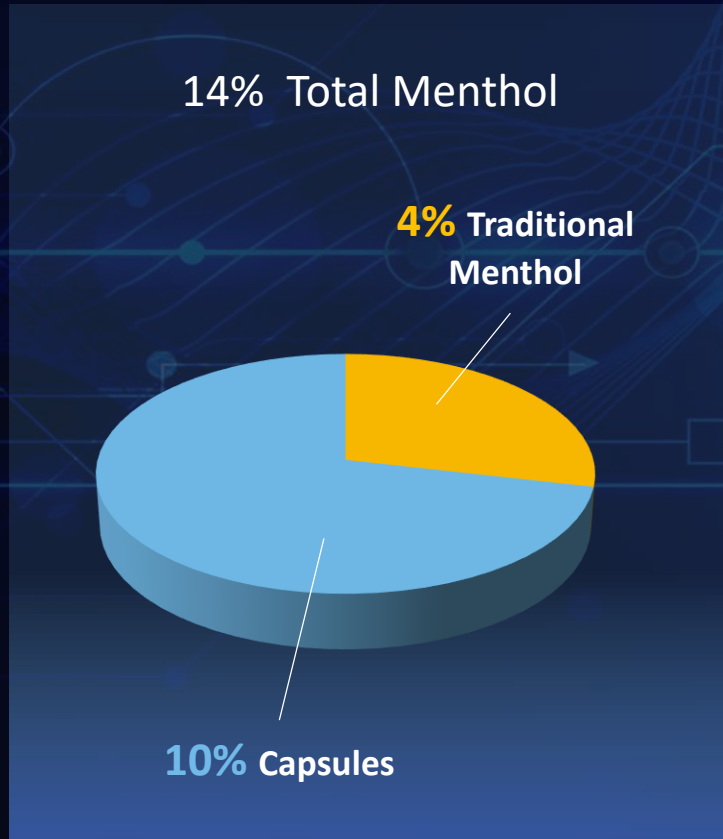
- 1 Total menthol segment share of 14% with BAT leading the segment with 82% segment share
- 2 The vast majority – 99% - of ex-menthol smokers remained in FMC post menthol ban
- 3 We haven't seen any substantial change in the industry trends as a consequence of menthol ban
- 4 Through the implementation period of menthol ban BAT has grown share from 48.1% to 48.6%

Menthol ban in Canada – situation prior to the ban

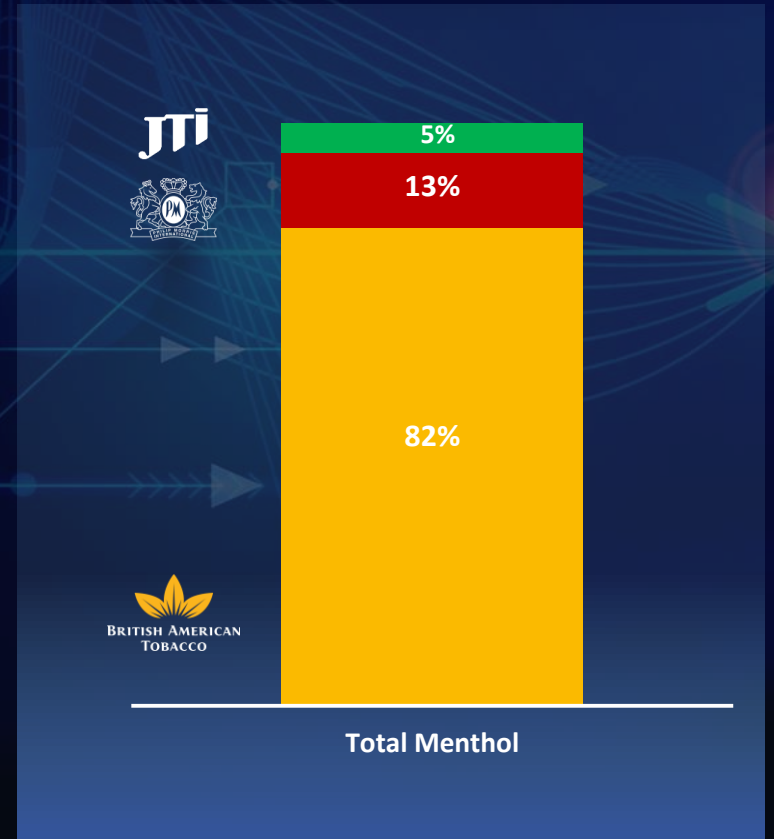
2016 CORPORATE SHARE OF MARKET, %



2016 MENTHOL CATEGORY



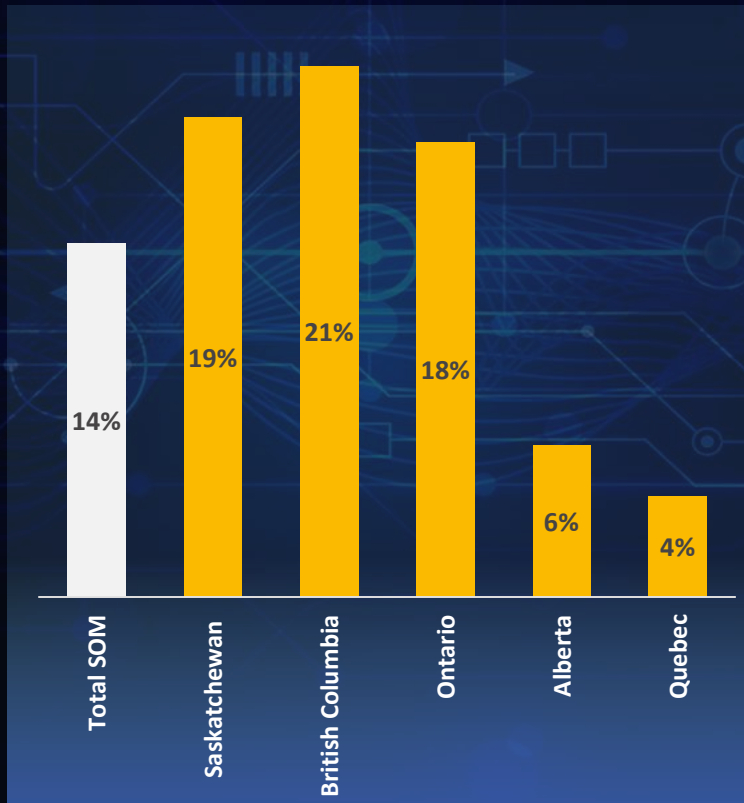
2016 SHARE OF MENTHOL SEGMENT, %



Source: Retail Audit (based on scan data for Canada)

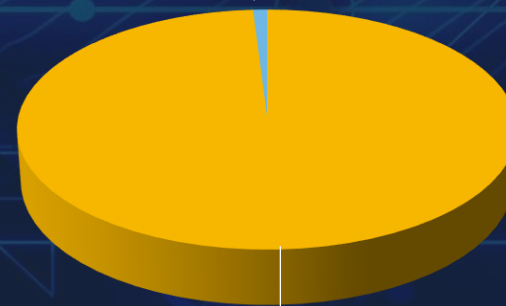
Menthol ban in Canada – consumers remained within FMC

MENTHOL SEGMENT IS HIGHLY CONCENTRATED



99% OF SMOKERS STAY IN FMC

1% Switched out of FMC



99% Stayed in FMC

KEY HIGHLIGHTS

- ✓ **14%** share of market of Traditional menthol & Capsule segment in Canada
- ✓ Ranging from **4%** to **21%** in different geographies
- ✓ Post menthol ban **99%** of menthol smokers remained within FMC

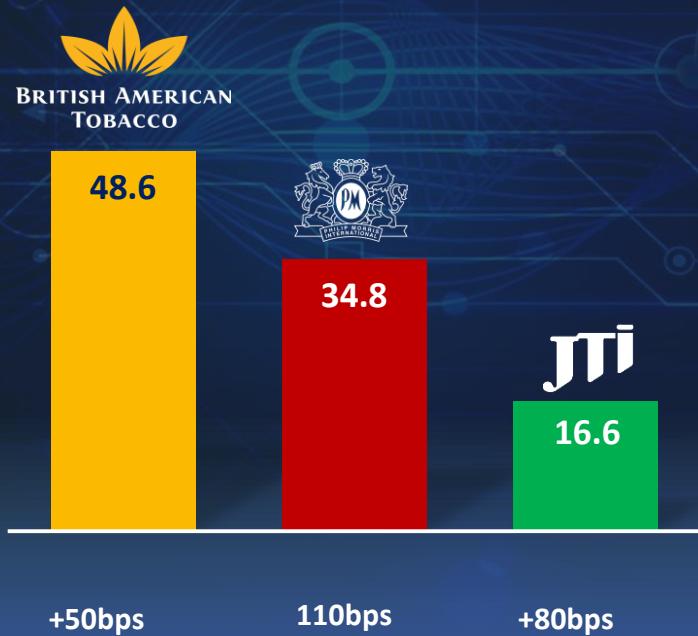
Source: Specific period of the reported Retail Audit share used per state with the date of menthol ban per state: National is FY 2016, British Columbia & Saskatchewan is YTD Sept 2017 (Ban was Oct 1st '17), Alberta was YTD Sept 2015 (Ban was Sept 30 '15), Ontario was FY 2016 (Ban was Jan 1'17), Quebec was YTD Aug 2016 (Ban was Sept 1'16)

Source: Kantar, Tracking Menthol smokers in Alberta, 6 weeks post ban (9th - 16th Nov)

Menthol ban in Canada – no material industry impact post ban

BAT SHARE GROWTH BY 50bps FROM 2016 TO 2018

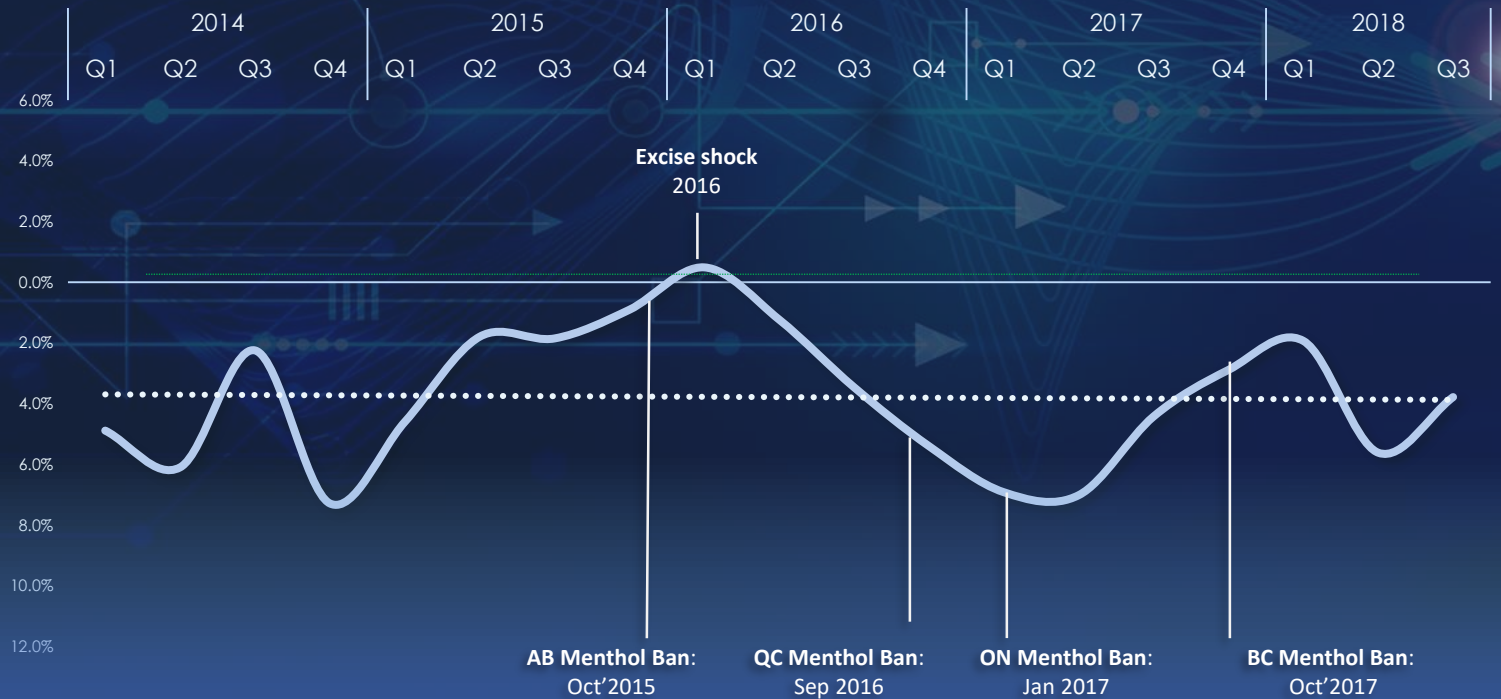
2018 Group Share of Market, %



Group share of market change, 2018 vs 2016

NO IMPACT ON DUTY-PAID VOLUME DUE TO THE MENTHOL BAN

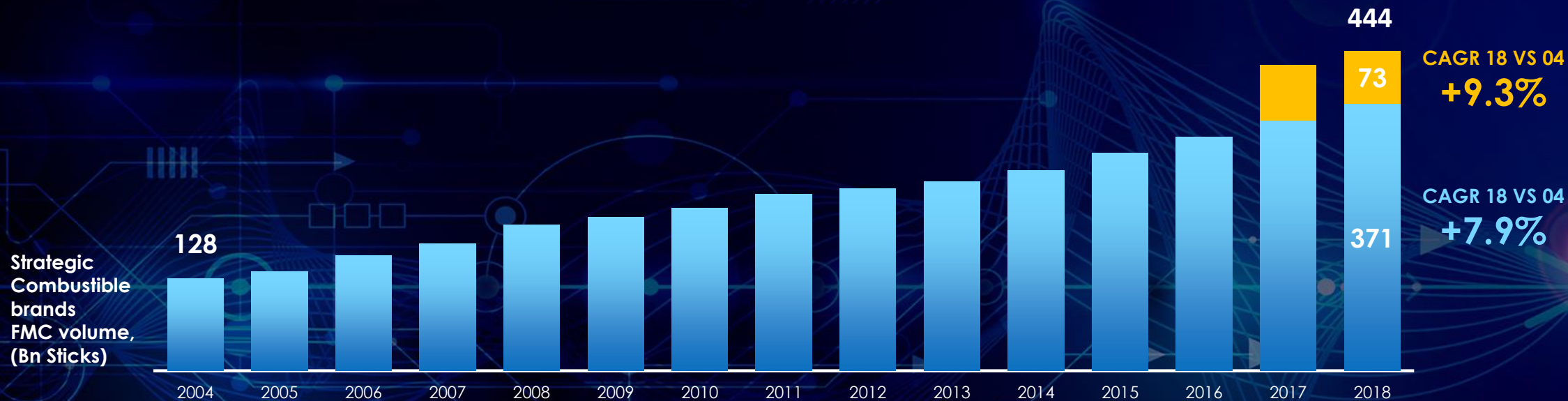
Total Industry Shipments Quarterly vs SPLY



Source: Retail Audit (based on scan data for Canada)

Source: Company data

Despite regulation, we have always delivered consistent growth over time



1966

First Health Warnings in the US



1971

First Health Warnings in the UK



1999

Advertising banned in South Africa



2003

The FTC is established



2005

Tobacco display bans introduced in Canada



2012

Standardised Packaging introduced in Australia



2016

FDA regulation and Growth in Vapour

Source: Company data, shipment Volume Data. Volumes presented on a representative basis inclusive of acquired businesses in the 2017 comparator period as though those businesses had been included in the consolidated results for the whole of that comparator period

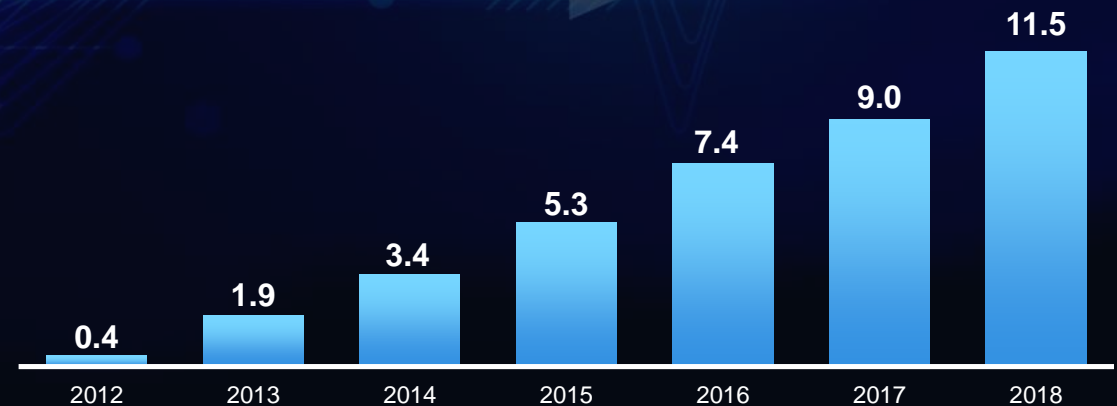
SUCCESS STORIES FROM AROUND THE WORLD...

Rothmans in Russia | leading BWAP through NFF, Slimmer and F&S

#1
F&S
FMC
BRAND



ROTHMANS SOM PERFORMANCE (%)



Source: Retail Audit

Pall Mall in Saudi Arabia | #1 brand in the market driven by NFF

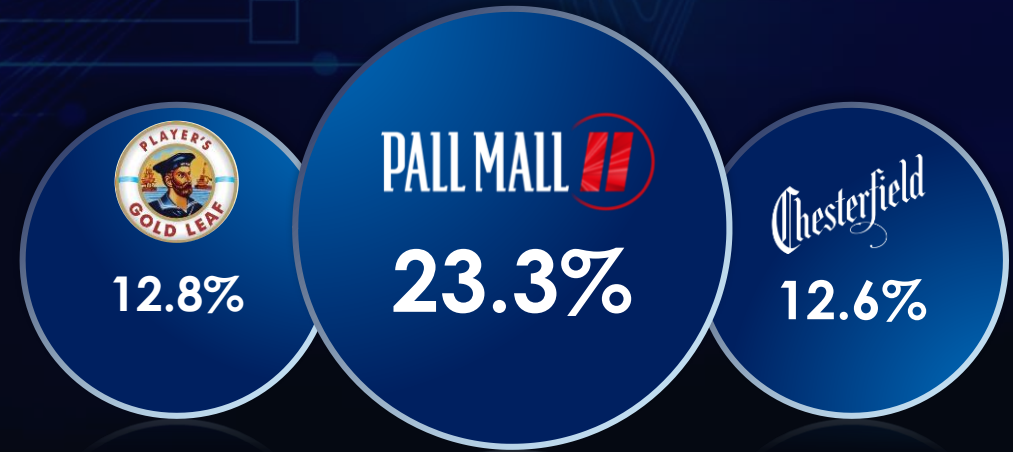
1st YEAR
AFTER LAUNCH

> **4bn** sticks

CLEAR MARKET LEADER

#1

NFF
FMC
BRAND

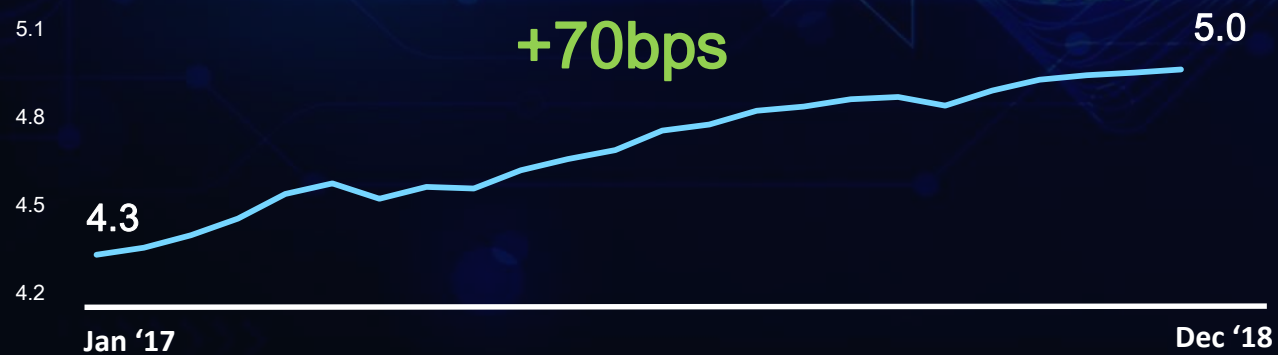


Source: IMS volumes, Retail Audit

Lucky Strike in AMSSA | Leading F&S growth

85% OF GROWTH
DRIVEN
BY F&S

LUCKY STRIKE SOM PERFORMANCE (%)



Source: Retail Audit, Track 2018





FASTEST GROWING BRAND IN THE MARKET

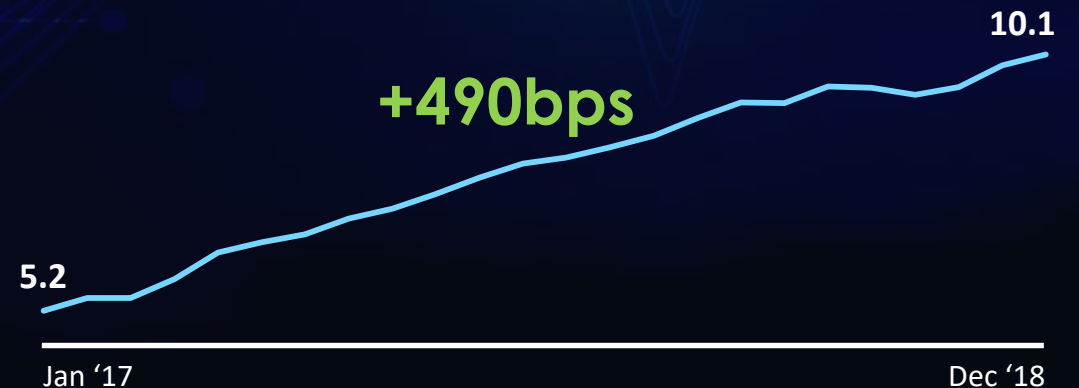
ASU30 Share

15.9%

#1

IN ASU 30

KENT SOM PERFORMANCE



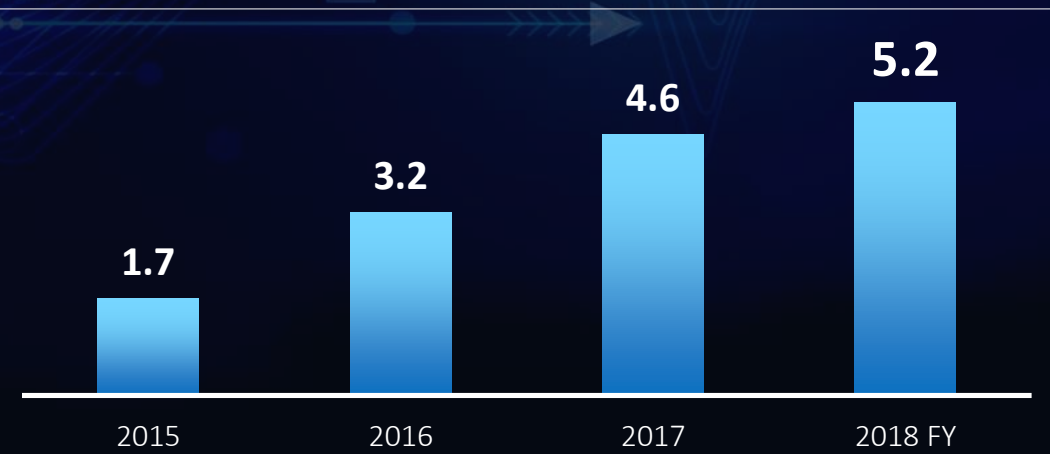
Source: Retail Audit, Track 2018

Rothmans in Nigeria | #1 brand with growth driven by F&S

#1 IN ASU30



ROTHMANS VOLUME (BNS)



Source: BI volumes shipments 2018, Track 2018

Dunhill in Brazil | #1 brand in Premium driven mainly by NFF



69%

SOS in Premium 2018

#1
NFF Brand In Market

ASU30
126
SHARE INDEX VS MARKET

PERFORMANCE



Source: Retail Audit , Track 2018

NAS | A key brand in our US portfolio with a distinctive product & unique taste differentiation



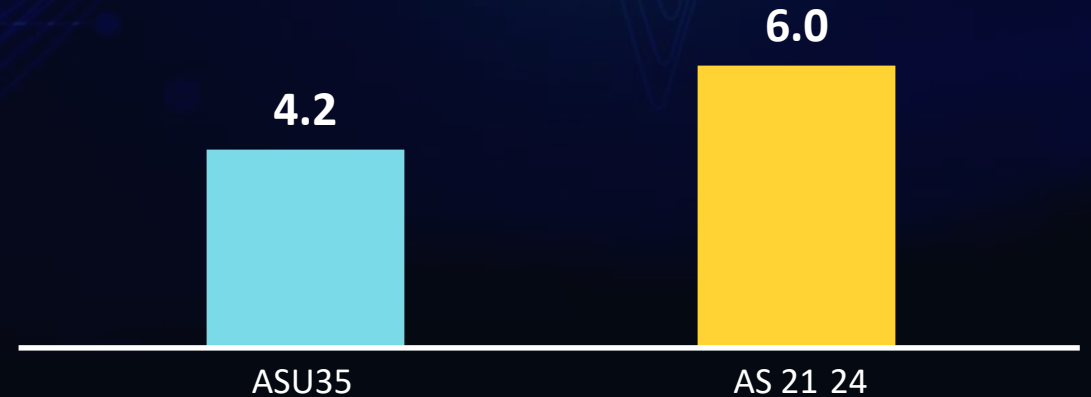
**FASTEST
GROWING
BRAND
IN PREMIUM**

Natural American Spirit



Source: STR, internal data

NAS SOM PERFORMANCE (%)

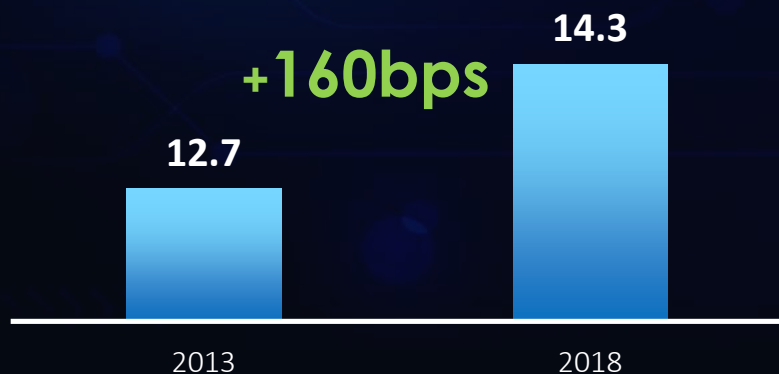


Newport | A leading US brand driven by F&S and format differentiation

#2 IN THE US

SOLID MARKET SHARE GROWTH

NEWPORT SOM PERFORMANCE (%)



Source: STR, internal data

HIGH CONSUMER LOYALTY, DRIVEN BY FORMAT DIFFERENTIATION

153
ASU35 index
to share of
market

80%
of consumers are
regular
buyers

of Newport
volume is in
100's

1

In 2018 Combustibles account for **86%** of duty-paid Tobacco and New Categories **Industry revenue**

2

Combustible category remains dynamic with significant opportunity for further value growth

3

Group market share growth of **106bps** over the last 3 years, with Drive Brands growth of **385bps**

4

We have a **great portfolio** of brands with **leading equities powered by innovation**

5

We will continue to focus on the **key growth segments** of Non-full flavour, Slimmer and Freshness & Stimulation by **targeted investments**

6

...and drive for **efficiencies** through further **portfolio consolidation** and **rationalisation**

7

We are well-prepared for **regulation**

Note: Group market share includes US, change shown for Jan. 2016 vs Dec. 2018. Combustibles contribution to duty paid Tobacco and New Categories Industry revenue as an internal company estimate.