

Preliminary Results 2017

22nd February 2018

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Nicandro Durante
Chief Executive Officer



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Important Information

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No Profit or Earnings Per Share Forecasts

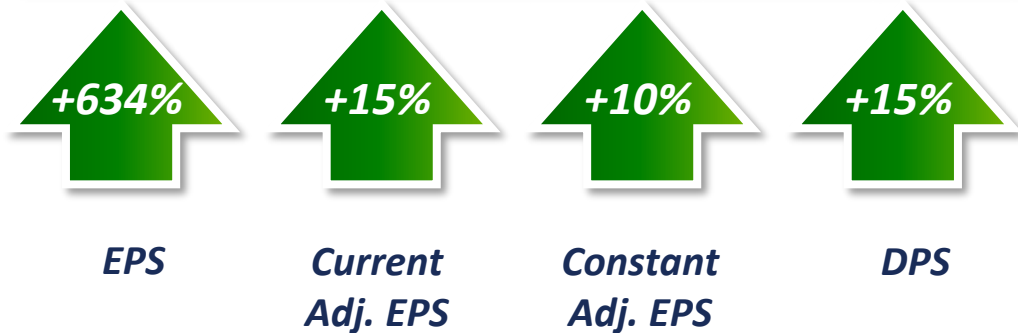
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Audience

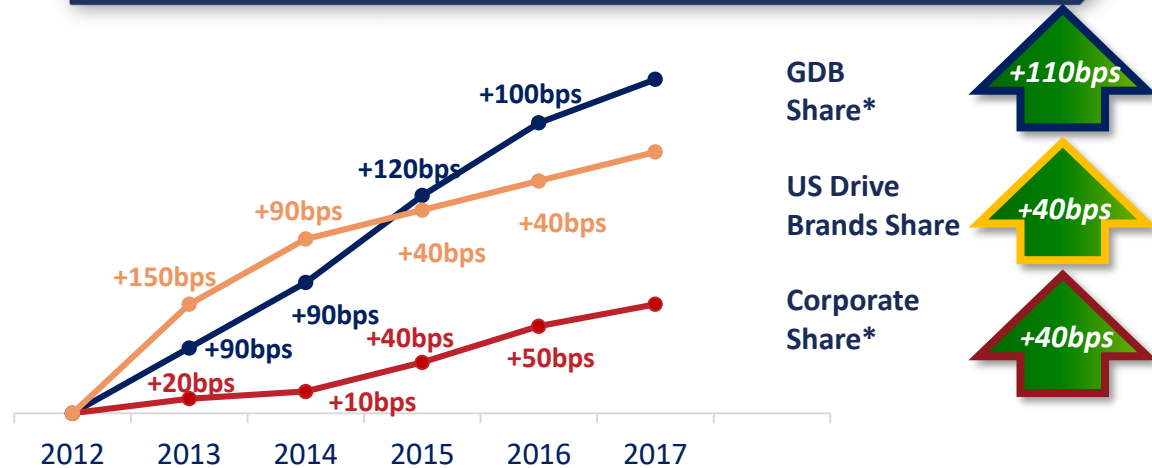
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2017 – A Transformational Year

Strong Consistent Delivery to Shareholders



Strong Combustible Performance Continues



*excluding RAI

Reynolds American Acquisition Completed

- › World's leading tobacco and nicotine company
- › Direct access to the world's most profitable market (ex-China)
- › Strong combined portfolio of growing brands
- › Reinforces long-term sustainability of HSF EPS growth

NGPs Accelerating Growth

NGP Revenue**

	<u>2017</u>	<u>2018E</u>	<u>2022E</u>
<i>THP</i>	£0.2bn	£0.6bn	£3.5bn
<i>Vapour</i>	£0.3bn	£0.4bn	£1.5bn
Total	£0.5bn	£1.0bn	£5.0bn

**12 months of RAI

...And an Eventful Year

Excise and Pricing

Excise Shocks



GCC



RUS



PAK



MYS

- › Excise shocks in key markets
- › Illicit trade growing
- › More price competitive in some markets

FDA



- › An opportunity
- › First recognition of the risk continuum by a regulator
- › Complex, time consuming and thorough process
- › BAT well-prepared and well-positioned

Quebec Class Action



- › Quebec Court of Appeal hearing November 2016
- › Judgement continues to be expected at any time
- › Range of outcomes possible

US Tax Reform



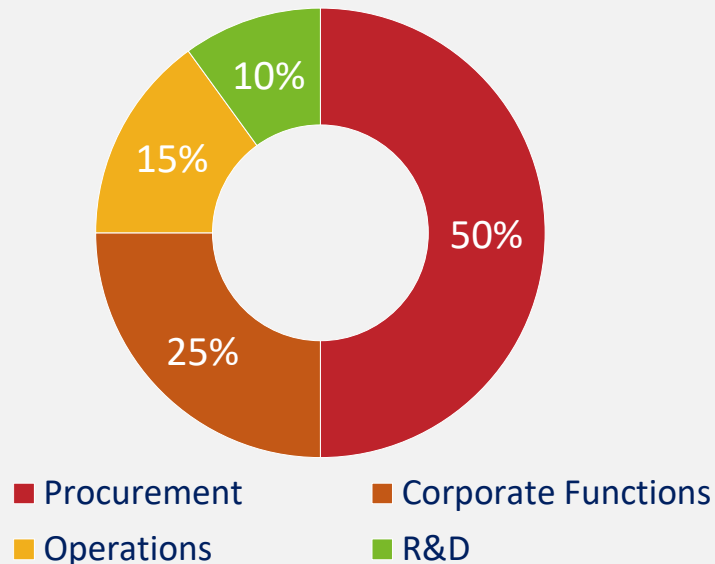
- › Corporate tax rate reduced from 35% to 21%
- › EPS impact +6% in 2018, all things being equal
- › Around half to be reinvested, half to support shareholder returns

2017 – RAI Deal Already Delivering Value

Cost Synergies

2017 - \$70+mn

Total cost synergy split



Integration

- › Integration progressing well
- › Firm plans for delivery of cost savings at least **\$400mn**
- › Early delivery of cost savings through application of BAT systems/processes
- › Management team integration underway with senior BAT appointments in place



NGP Opportunities

“We are combining the capabilities of both organisations to enhance our global R&D strength”

- › SE* application for Carbon Tip
- › SE application for glo to be submitted in 2018
- › Awaiting TPSAC** meeting for Camel snus MRTTP*** applications

*SE – Substantial Equivalence

** TPSAC – Tobacco Products Scientific Advisory Committee

*** MRTTP – Modified Risk Tobacco Products

2017 – Industry leading Portfolio of Brands and Products

Strategic Global Brands

Potentially Reduced-Risk Products (PRRPs)

Global Brands

US Brands

Oral Products

THP

NGP

Vapour



DUNHILL
TOBACCO OF LONDON LTD

Rothmans
OF LONDON



Newport

PALL MALL

CAMEL

GRIZZLY

EPOK

CAMEL

glo™

vype

vuse

KENT

ENJOY THE MOMENT
PALL MALL

Luckies

TRANSFORMING
TOBACCO

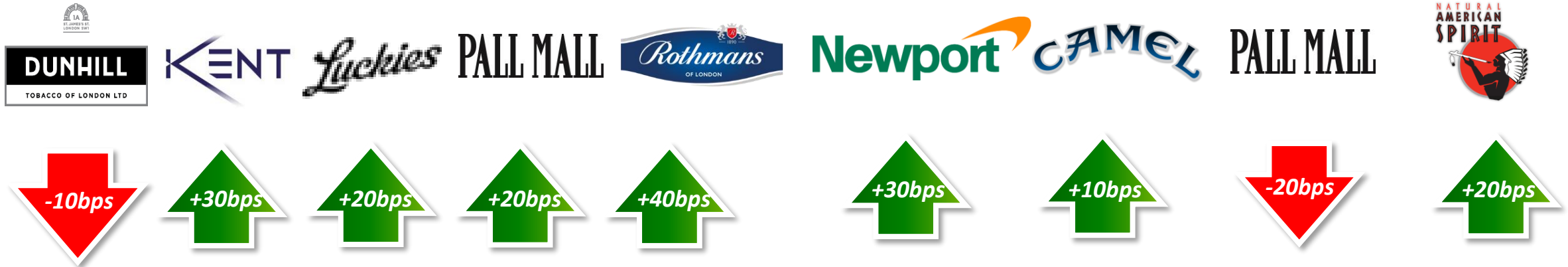
BRITISH AMERICAN
TOBACCO

2017 – Strong Combustible Brand Performance

+40bps

GDBs

US Drive Brands



+110bps*

+40bps*

- GDBs now 54% of total group volume (ex.US)
- Strong performances in Brazil, Pakistan, Turkey and Mexico
- Significant launches or migrations in Brazil, Colombia, Chile, Indonesia and Russia

- Strong performance in premium
- Newport, Camel and NAS all growing share
- Newport expanded its Platinum styles
- Camel expanded its Turkish styles

*Ex-US

*US Market Share

2017 – Unique Portfolio of Potentially Reduced-Risk Products

Oral Products



EPOK

GRIZZY

glo™

vype

vuse

Pouches

Loose

Pouches

Carbon Tip

e-THP

Hybrid

Closed

Open

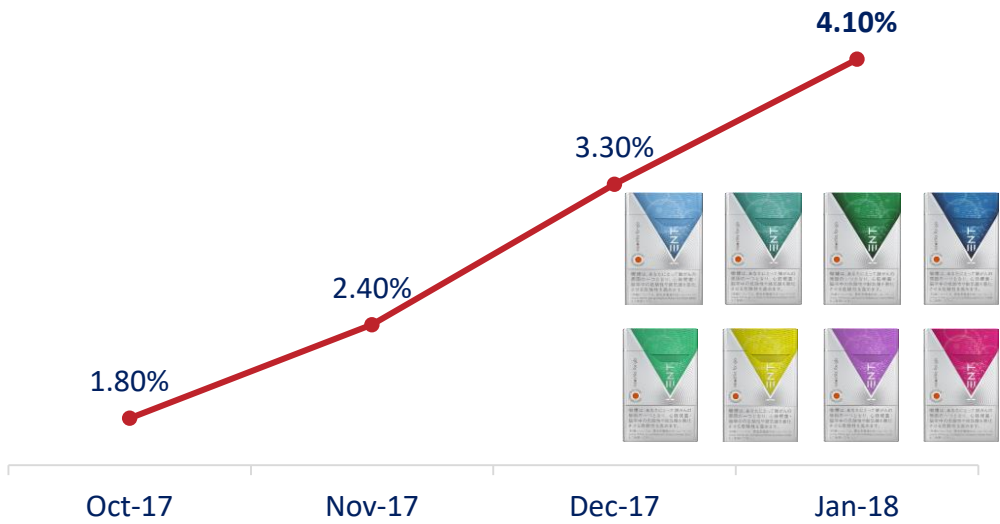
Closed

Open

2017 – Outstanding Performance of glo in Japan



➤ Strong Market Share Performance



- glo national share at 4.1% after 4 months
- 4 new variants launched in December 2017
- 8 variants - widest flavour range in the market

➤ Capacity Growing Rapidly

	2017*	2018*
<i>Devices</i>	5mn Units	25mn Units
<i>Consumables</i>	15bn Sticks	52bn Sticks

➤ Strong Innovation Pipeline

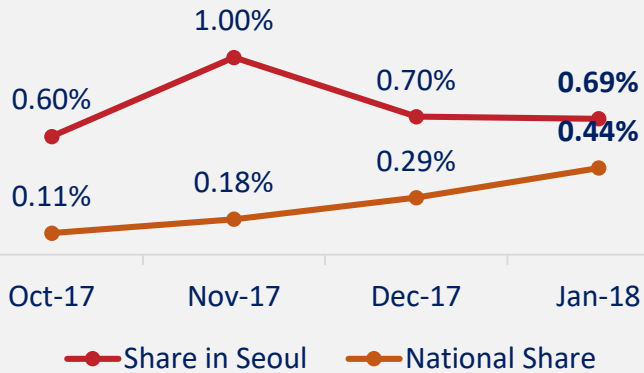


*Annualised year end capacity

2017 – glo Geographical Expansion



glo in South Korea



- Glo distributed in 44,000 outlets nationwide
- National share at 0.44%
- 1-2-1 Activation program
- Intense competition

glo in Other Countries



- Communications restrictions impacting consumer understanding
- Vapour already a significant category, despite currently being banned
- Regulation under review



- Higher tobacco flavour market
- Higher nicotine glo variant planned



- Consumables sold in 2000+ retailers across 7 cities and online
- Dedicated salesforce of 400



- Encouraging consumer response
- Consumables sold in 650+ retailers
- Strong pipeline of marketing initiatives

glo in 2018

+14



NEW
MARKETS

2017 – Good Progress on our Vapour Journey



➤ Strong Market Position and Improving Profitability

*Global share**

6%

Revenue

+30%

Gross Margin

+10pp

➤ Leadership Positions in Key Markets

- Consolidated leadership position in France, Germany, Italy and Poland*
- Vype and 10 Motives achieved record 40% share of retail
- Vype offtake volume in UK up 40% and in France up 30%
- Vype 37% share in retail and c.10% total market share in Germany
- Vuse in the US achieved >30% retail share in 2017
- Vuse offtake volume in US up 16%

➤ Acquisitions Reinforcing the Portfolio

- 10 Motives – Grown market share and revenue
- Chic – Liquid volume up +20%
- VIP – Integration progressing well and footprint expansion of 25% in 2018

➤ Second Generation Vapour Products



ePen 3



Raptor

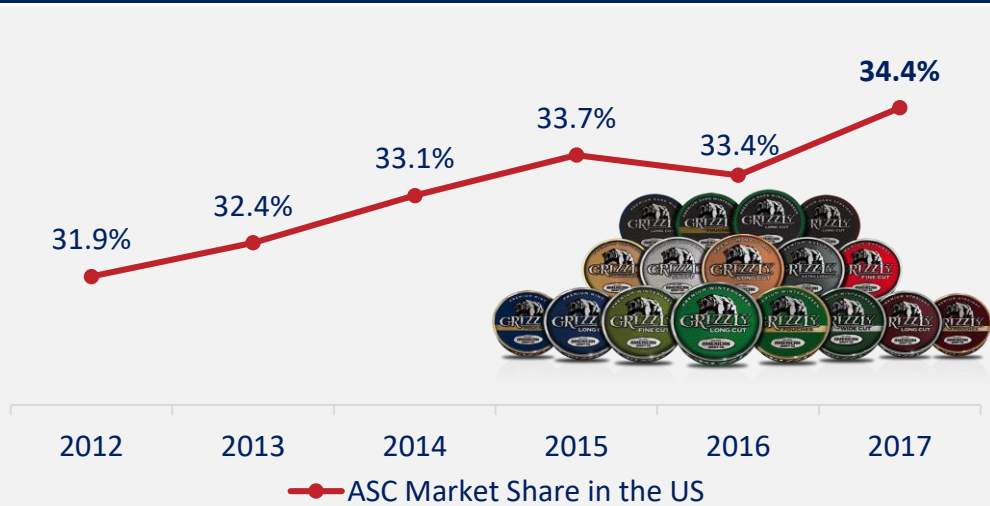


DV Tech

* Based on internal estimates, Incl. RAI

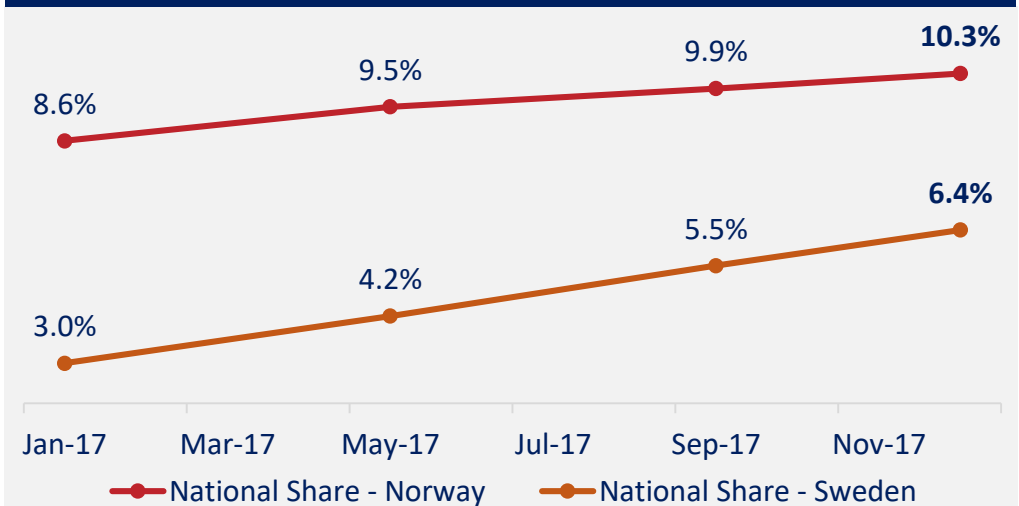
2017 – Growing Oral Potentially Reduced-Risk Product Opportunity

American Snuff Company - US



- Grizzly up +100bps to 31.8% share in 2017
- Leader in growing wintergreen and pouch segments
- Expansion of successful Grizzly Dark styles
- Continued limited edition packaging and powerful equity building campaigns

Snus – Norway and Sweden



- BAT snus market share up 170bps in Sweden and up 340bps in Norway
- Epok 85%, growing share of white snus market in Nordics
- Fastest growing snus brand in Norway
- Only premium snus growing brand in Sweden

2017 – A Transformational Year

The world's leading tobacco and nicotine company

Outstanding results from glo

Combustible business continues to outperform

Delivering on our commitment of high single figure constant adjusted EPS growth



Preliminary Results 2017








22nd February 2018

Ben Stevens
Finance Director

2017 – Deal Marks Record Year (mn)

	Reported		RAI Key Adjusting		Adjusted
Revenue	£20,292	37.6%			£20,034 35.8%
Profit from Operations	£6,476	39.1%			£7,993 45.8%
Associates	£24,209		-£23,288		£1,012
Tax	£8,113		-£9,620		-£2,107
Diluted EPS	1,830.0p	634%			284.4p 14.9%

2017 – Deal Marks Record Year

		Current	Constant
Financials	Adjusted Organic Revenue	£15,712mn  6.5%	 2.9%
	Adjusted Organic Profit from Operations	£5,910mn  7.8%	 3.7%
	Adjusted Diluted EPS	284.4p  14.9%	 9.9%
Volume	Cigarettes & THP Organic	647bn  -2.6%	

2017 – EEMEA

	Constant		Current
Adjusted Revenue	£3,773mn	0.6%	4.4%
Adjusted Profit from Operations	£1,265mn	-1.9%	3.9%

		Main drivers	Offset by
Volume - 228bn sticks	-3.4%		
GDBs - 136bn sticks	+9.9%		
Market Share	+30bps		



2017 – ASPAC

	Constant		Current
Adjusted Revenue	£4,320mn	● 1.3%	● 5.7%
Adjusted Profit from Operations	£1,674mn	● 2.7%	● 7.7%

		Main drivers	Offset by
Volume - 193bn sticks	● -1.3%	● ● ●	●
GDBs - 85bn sticks	● +1.5%	<i>Luckies</i> <i>PALL MALL</i> / 水	<i>DUNHILL TOBACCO</i> / LONDON LIMITED
Market Share	● +60bps	● ●	● ●



2017 – AMERICAS

	Constant		Current
Adjusted Revenue	£3,178mn	10.8%	9.0%
Adjusted Profit from Operations	£1,288mn	9.9%	7.1%

		Main drivers	Offset by
Volume - 107bn sticks	-5.0%		
GDBs - 46bn sticks	+10.9%		
Market Share	Flat		



2017 – WER

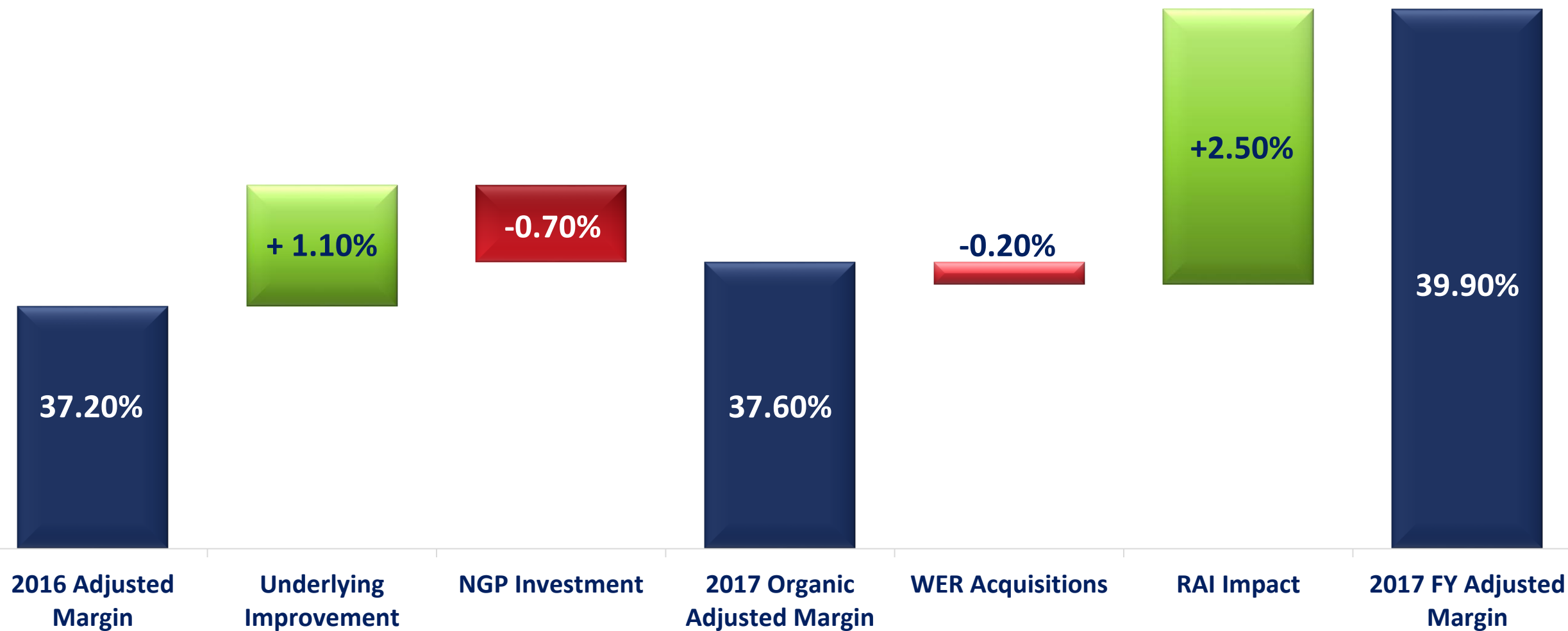
	Constant*		Current*
Adjusted Revenue	£3,902mn	0.9%	7.6%
Adjusted Profit from Operations	£1,456mn	4.9%	12.3%

* Organic

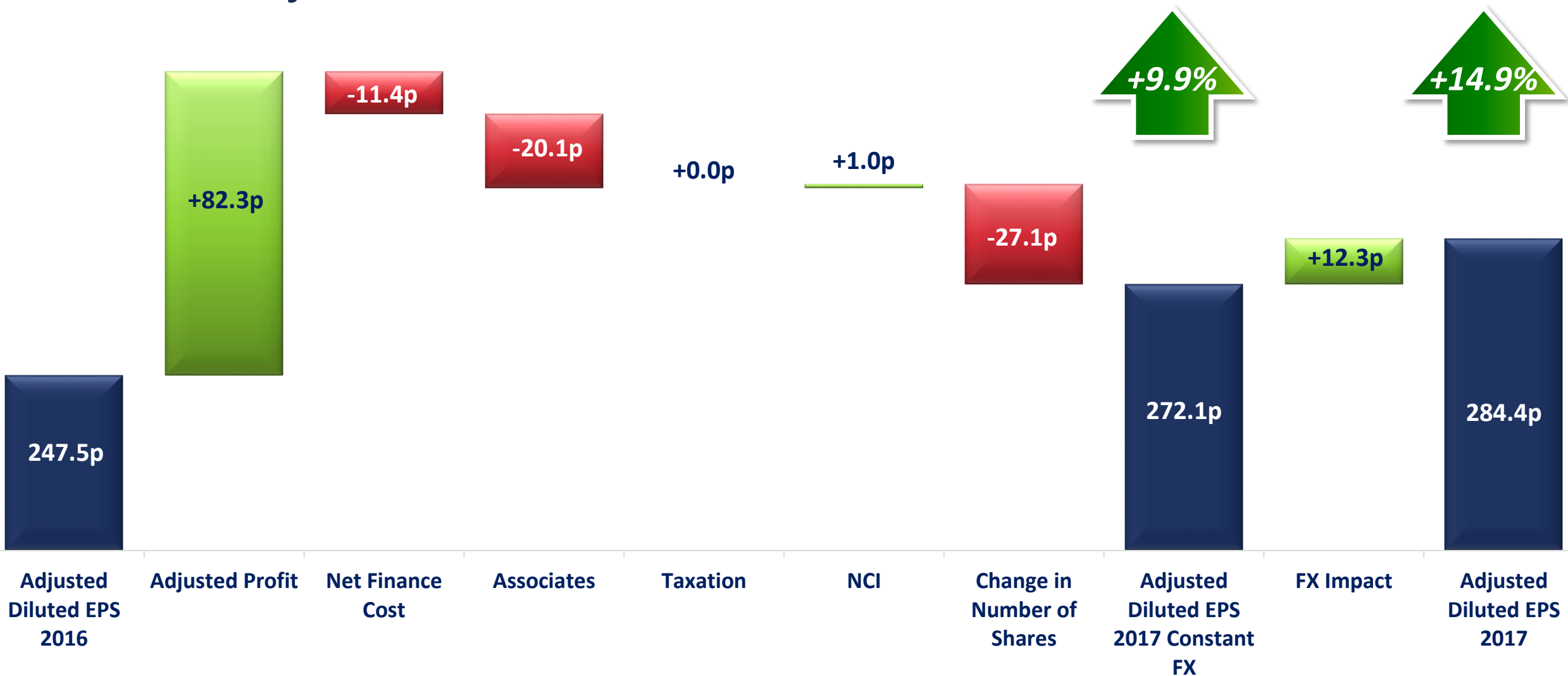
		Main drivers	Offset by
Volume - 122bn sticks	+1.7%		
GDBs - 82bn sticks	+8.9%		
Market Share	+30bps		



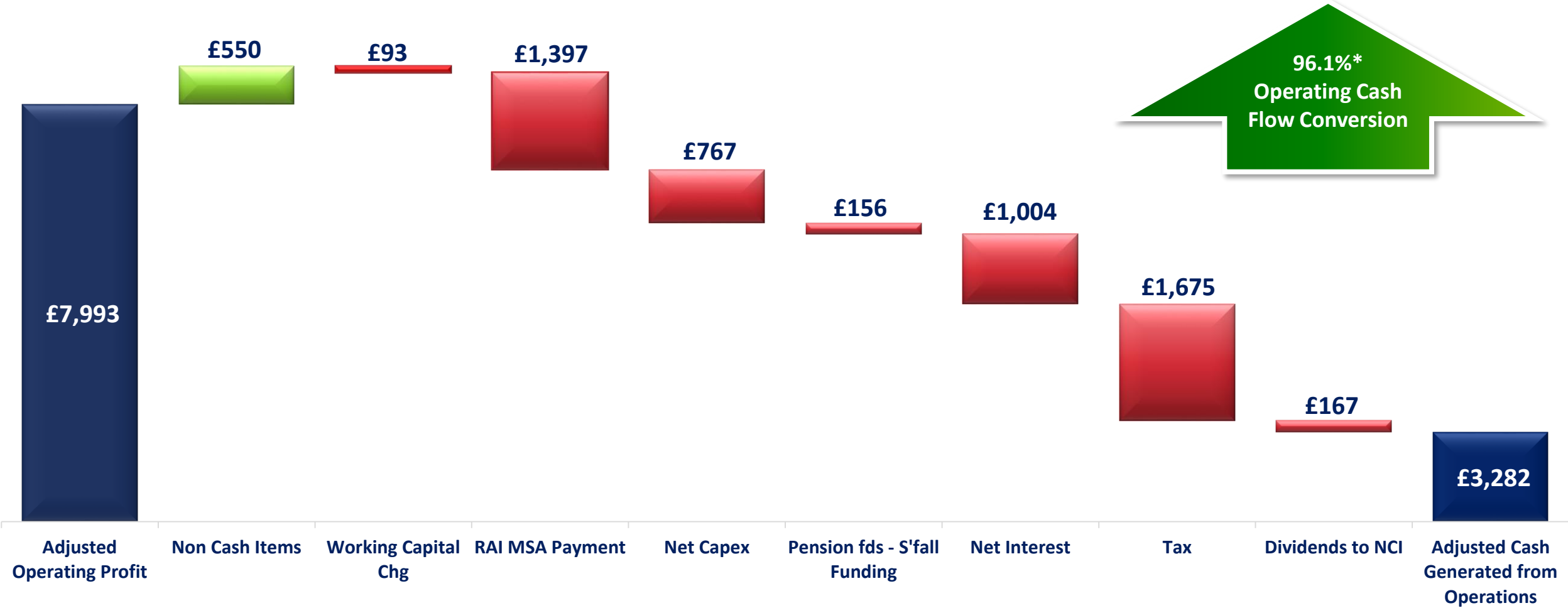
2017 – Adjusted Operating Margin Up 270bps



2017 – Adjusted Diluted EPS Growth Drivers



2017 – Adjusted Cash Generated from Operations (mn)



* Excluding early MSA payment

2017 – Financing / Shareholder returns

	Key Metrics	2017
Net debt/EBITDA	Returning to the higher end of 1.5x – 2.5x	4.0x pro-forma and 5.3x accounting basis, targeting around 3.0x by end 2019
Payout ratio	65%	69%
Credit Rating S&P & Moody's	Seeking medium-term recovery to BBB+/Baa1	Credit ratings confirmed at BBB+/Baa2 stable
Dividend	Shift to quarterly dividends effective 2018; transition payment in February 2018	

2017 – Financial Summary

Volume

Volume

-2.6%

GDB Volume

+8%

Financials

Adjusted Revenue

+3%

Constant currency

Adjusted Profit

+4%

Constant currency

Adjusted Diluted EPS*

+10%

Constant currency

* Non - Organic

Share

Corporate Share

+40bps

GDB Share

+110bps

US Drive Brands

+40bps

2017 – A Transformational Year

Largest acquisition of a tobacco company ever completed

NGP business delivering growth

Significant investment in NGPs

RAI acquisition reinforces long-term sustainability of delivery

Delivering on our commitment of high single figure constant adjusted EPS growth



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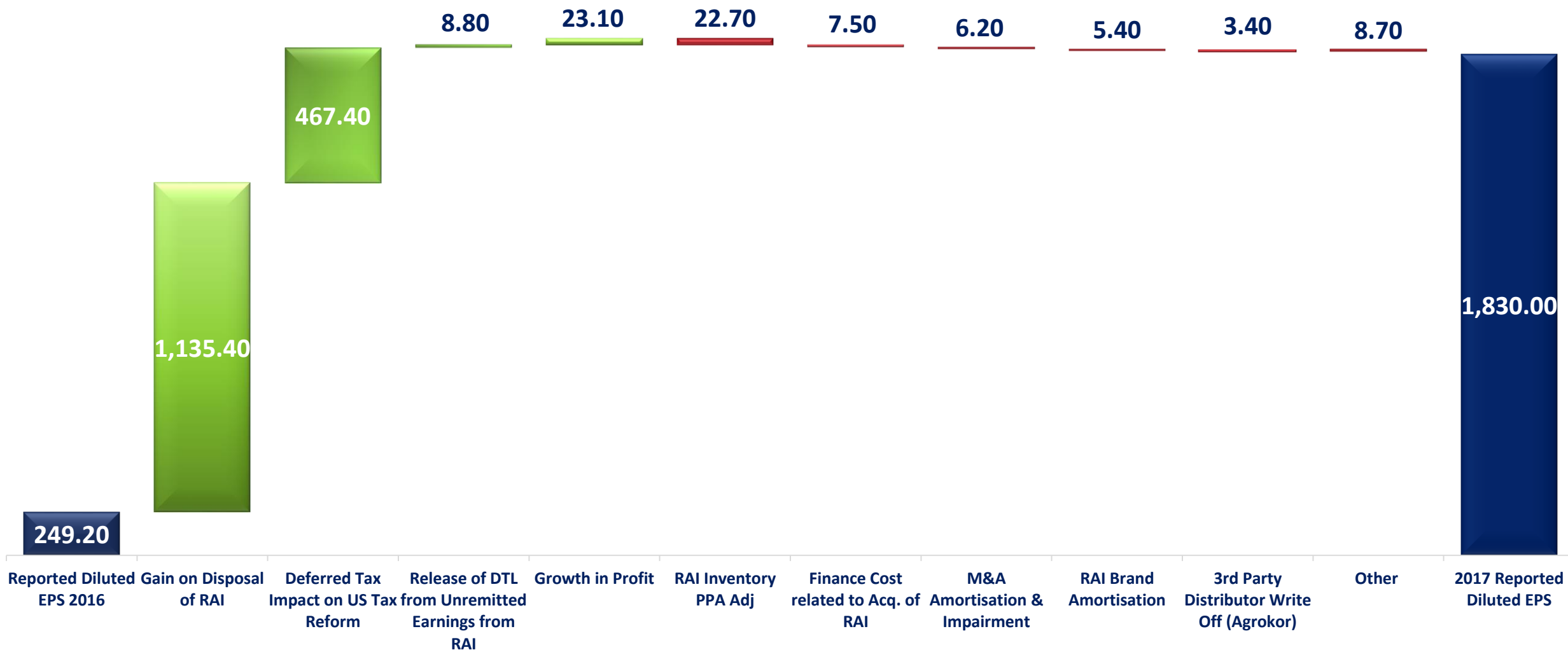
Supplementary Slides

22nd February 2018

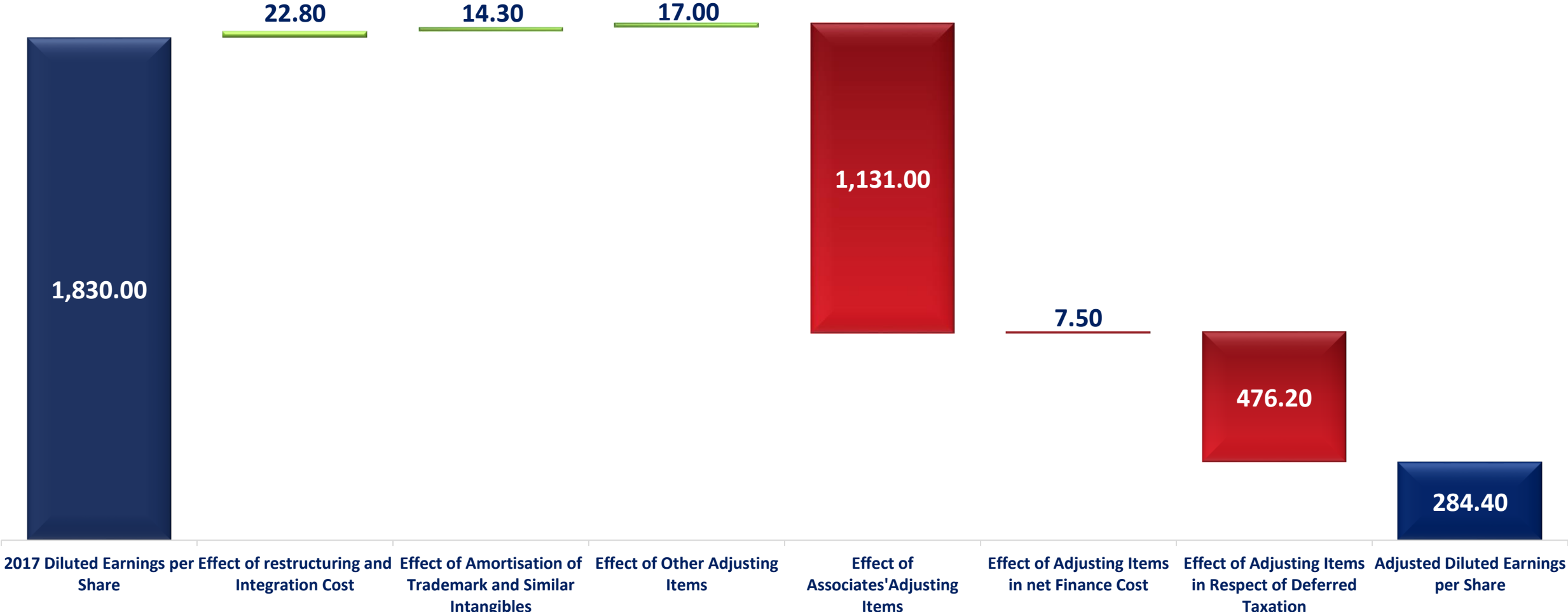
2017 – Reconciliation of IFRS to Adjusted Numbers (mn)

	Reported	RAI Adjusting	Other Adjusting	Adjusted
Revenue	£20,292 37.6%		-£258	£20,034 35.8%
Profit from Operations	£6,476 39.1%	£763	£754	£7,993 45.8%
Net Finance Costs	£1,094	£153	£52	-£889
Associates	£24,209	-£22,195	-£2	£1,012
Profit Before Tax	£29,591	-£22,279	£804	£8,116
Tax	£8,113	-£9,916	-£304	-£2,107
Non-Controlling Interests	-£171		-£4	-£175
Profit After Tax	£37,533	-£32,195	£496	£5,834
Diluted EPS	1,830.0p 634%			284.4p 14.9%

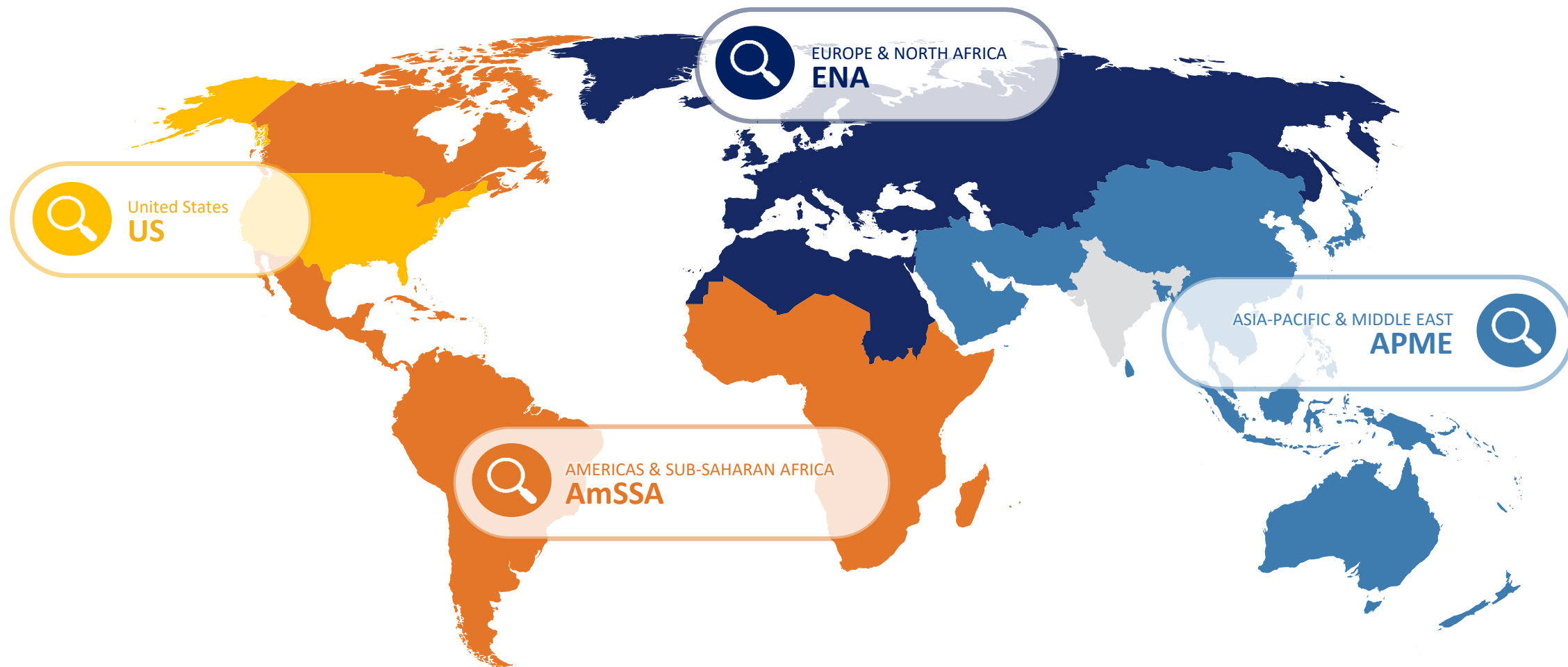
2017 – Reported EPS Growth Drivers (pp)



2017 – Reconciliation Reported to Adjusted EPS (pp)



2018 – New Regional Structure



2018 – New Regional Structure – Key markets



AmSSA	
Argentina	Colombia
Brazil	Mexico
Canada	Nigeria
Chile	South Africa



ENA	
Algeria	Netherlands
Belgium	Poland
Czech Republic	Romania
Egypt	Russia
Denmark	Spain
France	Switzerland
Germany	Turkey
Italy	UK
Kazakhstan	Ukraine
Morocco	



APME	
Australia	Malaysia
Bangladesh	New Zealand
GCC	Pakistan
Indonesia	South Korea
Iran	Taiwan
Iraq	Vietnam
Japan	

Top BAT Market Share Movements* (1)

Market	SOM FY17 (%)	Movement (ppt)
Argentina	23.7	0.1
Australia	40.3	1.1
Bangladesh	65.5	7.1
Belgium	26.0	(0.3)
Brazil	79.3	(0.7)
Canada	48	(0.2)
Chile	96.0	0.6
Colombia	50.2	1.0
Czech Republic	21.5	0.9
Denmark	72.6	(0.3)

Market	SOM FY17 (%)	Movement (ppt)
France	17.3	(0.5)
GCC	29.6	1.1
Germany	19.9	0.7
Indonesia	6.8	(0.1)
Italy	18.8	0.0
Japan	13.3	(0.2)
Kazakhstan	16.7	(0.1)
Malaysia	53.9	(3.2)
Mexico	36.4	0.6

Source: Retail Audit market share, except for Bangladesh, Japan and Belgium

*Excluding US

Top BAT Market Share Movements* (2)

Market	SOM FY17 (%)	Movement (ppt)
Netherlands	24.9	(0.6)
New Zealand	70.5	0.2
Pakistan	71.0	0.4
Poland	28.7	0.5
Romania	54.4	0.6
Russia	22.5	0.1
South Africa	79.5	(0.5)

Market	SOM FY17 (%)	Movement (ppt)
South Korea	13.8	(0.4)
Spain	11.3	1.0
Switzerland	37.5	(0.3)
Taiwan	10.4	0.4
Turkey	22.4	0.7
UK	9.6	0.1
Vietnam	23.6	(1.1)

Source: Retail Audit market share, except for Switzerland. Vietnam YTD Jul'17 market share.

*Excluding US

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