

# Interim Results 2018

26<sup>th</sup> July 2018

Nicandro Durante  
Chief Executive Officer

# 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 lead the development and roll-out of BAT innovations (Next Generation Products and Combustible); 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 filed on 15 March 2018 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](http://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.

## Additional Information

All financial statements and financial information provided by or with respect to the US or Reynolds American Inc. ("RAI") (and/or the RAI Group) 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 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 (and/or the RAI Group) it is provided as an explanation of, or supplement to, RAI's (including the RAI Group's) primary U.S. GAAP based financial statements and information.

## 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

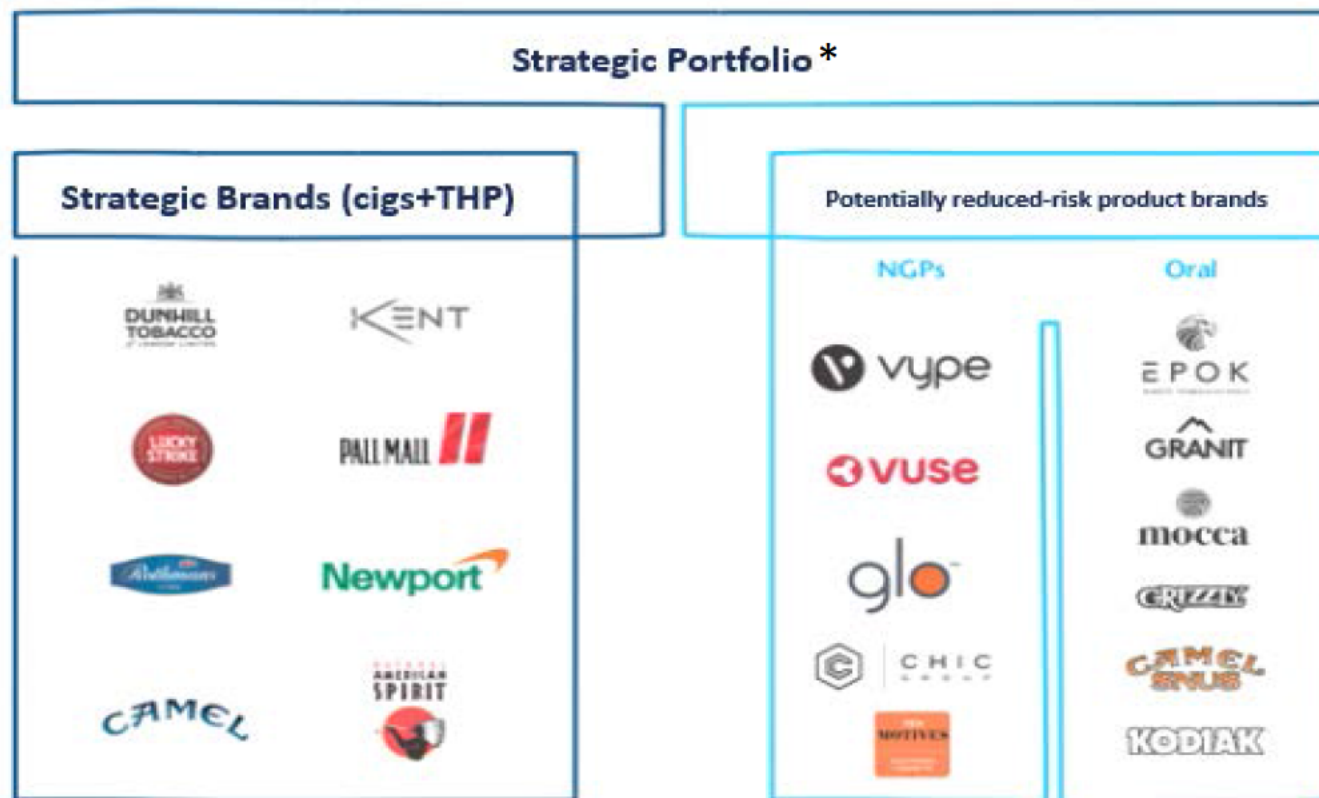
The material in this presentation is provided for the purpose of giving information about BAT and its subsidiaries to investors only and is not intended for general consumers. BAT, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this material 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.

# On track for another good year

Strong growth in the Strategic Portfolio

Reynolds performing well

NGPs on track for full year revenue >£1bn



\* The BAT Group does not own all brands referred to in this presentation in all markets e.g. BAT is the owner of the Camel and Natural American Spirit brands in the United States only



# 2018 Interim results highlights

	VOLUME	REVENUE	PROFIT FROM OPERATIONS	EPS~
REPORTED	+11.0%	+56.9%	+72.4%	-3.3%
ADJUSTED" CURRENT	-2.2%*	-6.4%*	-5.4%*	+2.1%
ADJUSTED" CONSTANT	-2.2%*	+1.9%*	+2.4%*	+10.4%

**NGP  
Revenue<sup>^</sup>  
+167%\* to  
£427m**

\* Results communications in 2018 include the presentation of results (volume, revenue and profit from operations) against 2017, as though the Group had owned the acquisitions made in 2017 for the whole of that year. Comparison of results on this basis will be termed "on a representative basis" and will provide shareholders with a results comparison representative of the Group having owned the acquisitions throughout 2017.

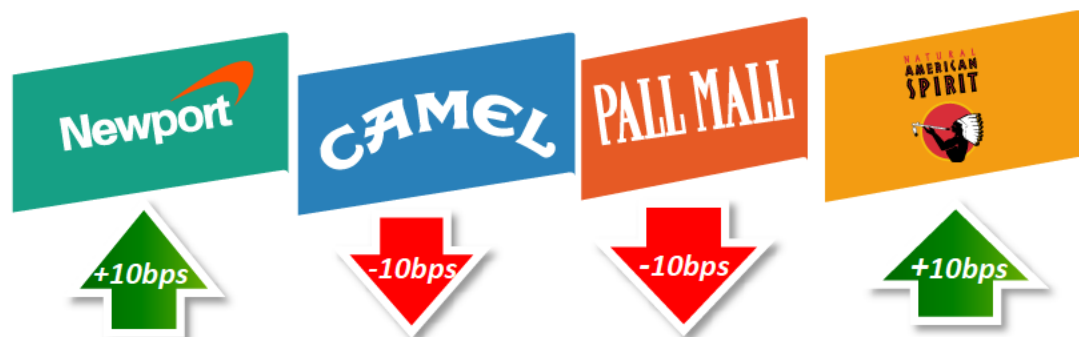
<sup>^</sup> Revenue and growth at constant rates      ~ EPS refers to diluted EPS      " see Appendix A2

# Strong Strategic Brand Performance - Combustible + THP

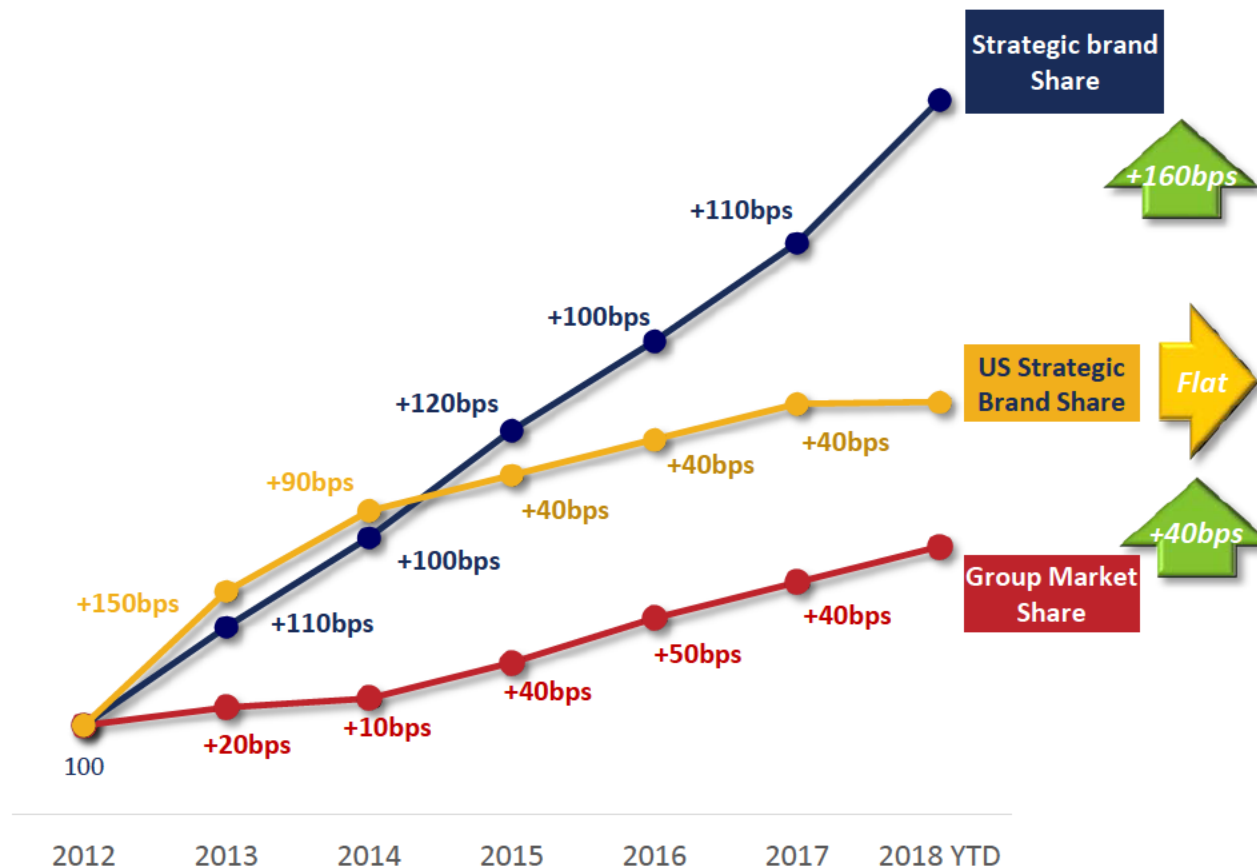
Strategic Brand Global Share including THP +160bps



US Strategic Brand Share\* Flat



Strategic Brand Share +160bps

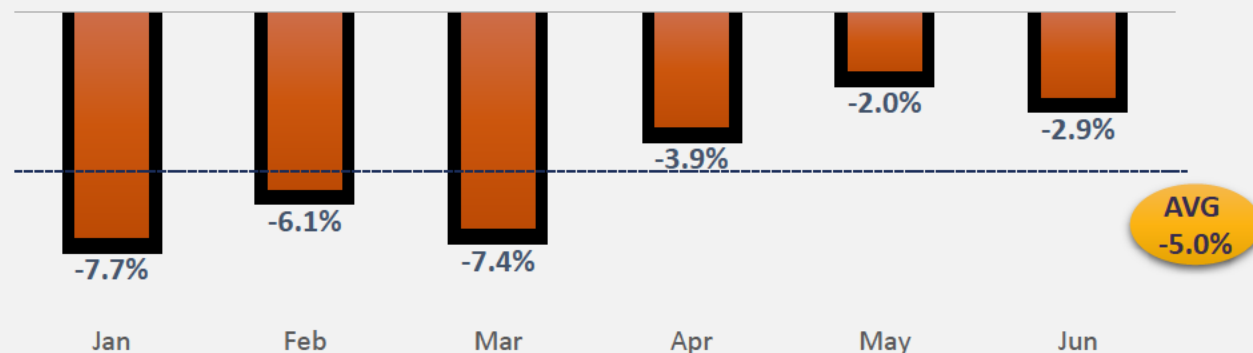


\* on a representative basis see Appendix A1

# The US – a good underlying performance

## US market dynamics remain robust

2018 Industry (STR) YOY % Change

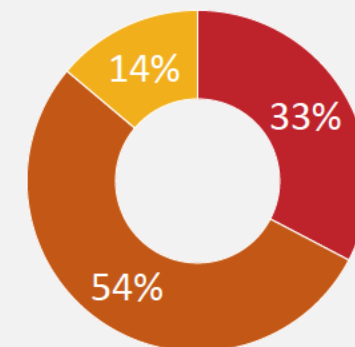


- Revenue up **+1.8%** at constant, excluding one-off comparator benefits (NAS inventory sale)
- Vapour market up **+20%** YTD; but **<5%** of overall tobacco market
- Continue to see limited impact on cigarette industry volume
- Volume down 5.5%, broadly in line with the industry
- Strategic brand share was flat, Premium share +10bps

## Cost synergies ahead of plan

2018 - **\$140m**

- Procurement
- Corporate Functions
- Operations



## FDA

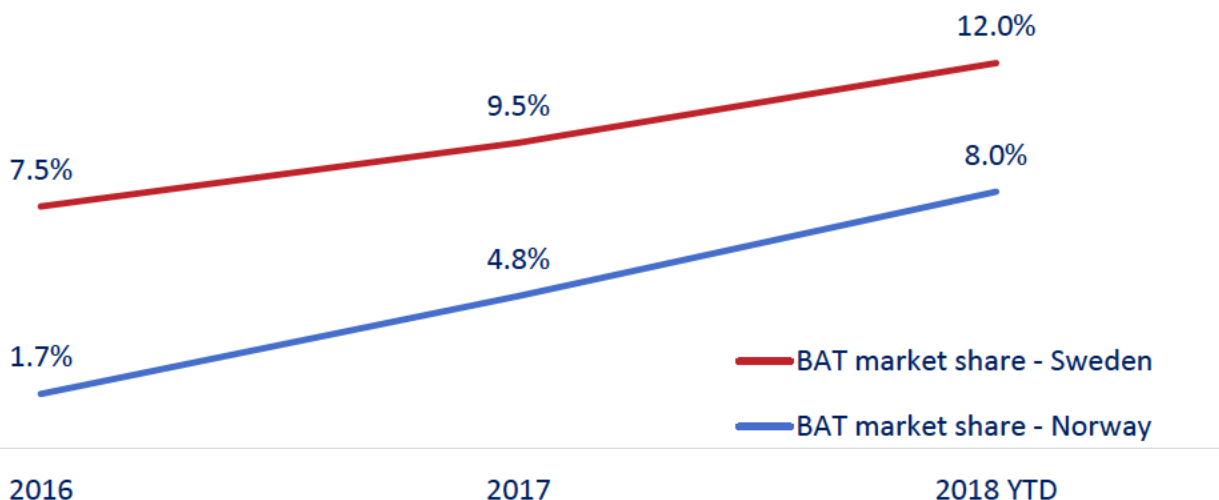
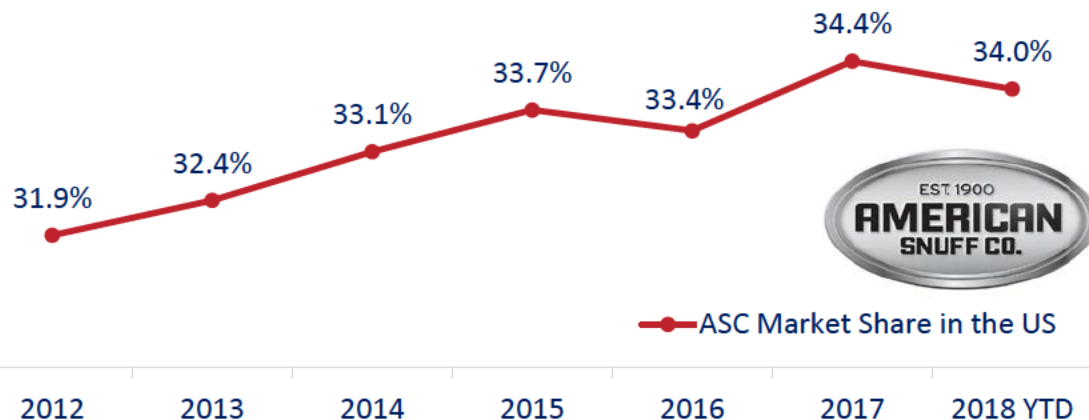


- Submitted comments on ANPRMs
- Carbon Tip Tobacco Heating Product SE clearance now received
- Camel Snus application to be considered by TPSAC in September
- glo SE application response expected 2019

# Oral tobacco- strong revenue growth



**Oral Tobacco Revenue<sup>^</sup> +11.3%\* to £473m**



## USA

- Strong price realisation driving +9% Revenue growth
- Grizzly share down to 31.5% following strong growth in 2017

## Europe

- Fastest growing Premium Oral brand in Sweden and Norway
- Diverse product range of flavour variants and nicotine levels
- Strong Margins
- EPOK has grown to a 14% category share in Switzerland in just 10 weeks

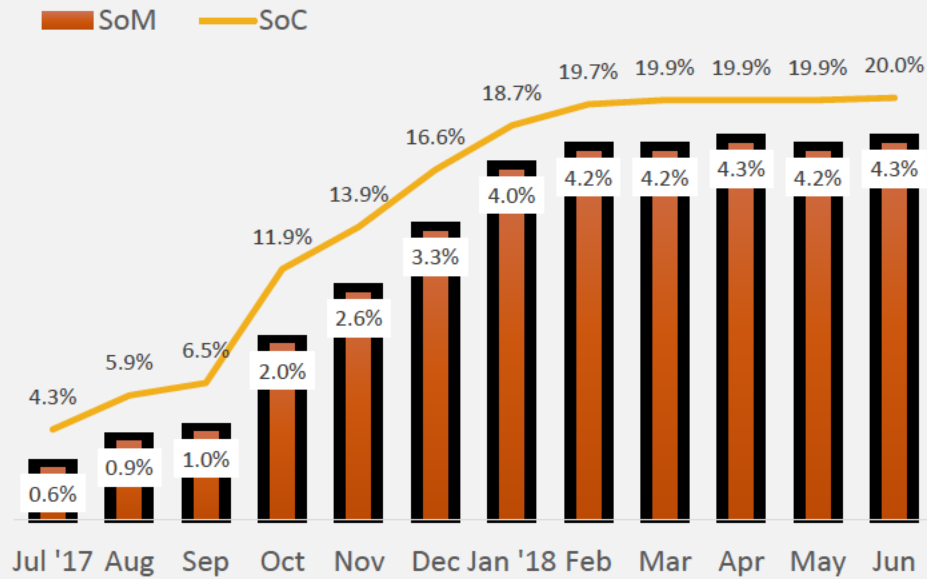
\* on a representative basis see Appendix A1

<sup>^</sup> Revenue and growth stated at constant rates

# THP - growth expected to accelerate in H2



## glo in Japan



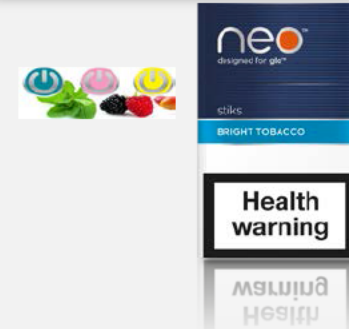
- Combined THP+Cigarette share up +80bps to 16.2% v Dec 2017
- Glo market share up 1% since December, flat since March

## H2 Activity plan

### glo series 2



### neo



### glo Mini



## glo in other countries

### S KOREA



- Share of THP category 6%
- Market share 0.7% v 0.3% in Dec 2017
- glo relaunch in Q3 with new Neo brand variants

### ROMANIA



### CANADA



### ITALY



### RUSSIA



### SWITZERLAND



# Vapour – growing global business

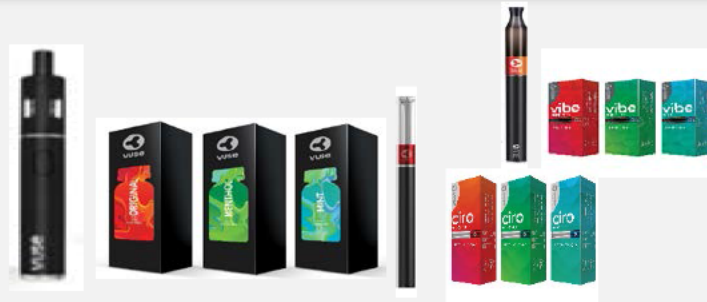


## UK



- UK Market grew by 25.8% in H1 (volume)
- BAT Vapour retail share grew +20bps in value to 41.1% v FY17
- VYPE ePen3 UK launch underway

## US



- Vapour category continues to grow, market value up +20% YTD;
- VUSE volume up over 20% and growing revenue, ex-Vibe recall
- VUSE share down 10ppts to 21%

## US Pod-mod launching in Q3



## Vapour continues to grow

FRANCE



GERMANY



POLAND



CANADA





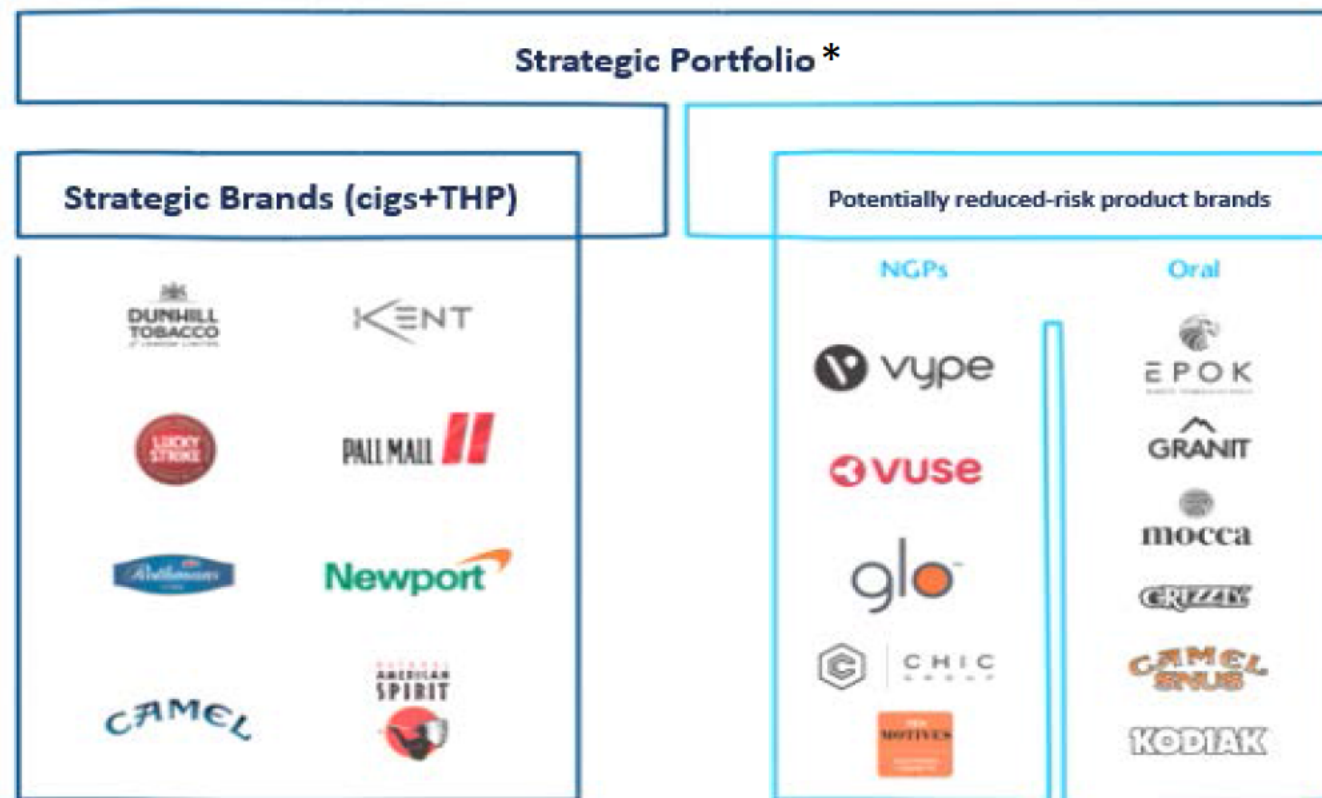
# On track for another good year

Strong growth in the Strategic Portfolio

Reynolds performing well

NGPs on track for full year revenue >£1bn

On track for another good year of constant currency earnings growth



\* The BAT Group does not own all brands referred to in this presentation in all markets e.g. BAT is the owner of the Camel and Natural American Spirit brands in the United States only

# Interim Results 2018

26<sup>th</sup> July 2018

Ben Stevens  
Finance Director



# 2018 Interim Results – Consistent delivery

	Reported	Adjusted~	Adj Current %*	Adj Constant %*
<b>Financials</b>				
Revenue	£11,636mn	£11,533mn	-6.4%	1.9%
Profit from Operations	£4,438mn	£4,818mn	-5.4%	2.4%
Diluted EPS	117.4p	137.2p	2.1%	10.4%
<b>Volume</b>				
Cigarettes & THP Organic	348bn		-2.2%	

\* on a representative basis see Appendix A1, ~ see Appendix A2

# 2018 Interim Results – US

	Constant		Current
Adjusted~ Revenue	£4,943mn	● Flat*	● -8.5%*
Adjusted~ Profit from Operations	£2,295mn	● +5.6%*	● -3.8%*

Volume - 39bn sticks	● -5.5%*
Strategic brands – 36bn sticks^	● -4.9%*
Market Share	● -10bps*



\* on a representative basis see Appendix A1, ~ see Appendix A2, ^ measured as cigs+THP

# 2018 Interim Results – APME

	Constant		Current
Adjusted~ Revenue	£2,620mn	+5.6%*	-3.9%*
Adjusted~ Profit from Operations	£1,033mn	-5.0%*	-12.7%*















		Main drivers	Offset by
Volume - 116bn sticks	+3.5%		
Strategic brands - 55bn sticks^	+15.4%		
Market Share	+110bps		

\* on a representative basis see Appendix A1, ~ see Appendix A2, ^ measured as cigs+THP

# 2018 Interim Results – AMSSA

	Constant	Current
Adjusted~ Revenue	£2,206mn  +2.9%*	 -9.0%*
Adjusted~ Profit from Operations	£920mn  +4.1%*	 -6.1%*

		Main drivers	Offset by
Volume - 77bn sticks	 -5.9%	  	
Strategic brands - 39bn sticks^	 +27.8%	 	
Market Share	 -10bps	Local portfolio	  












\* on a representative basis see Appendix A1, ~ see Appendix A2, ^ measured as cigs+THP

# 2018 Interim Results – ENA

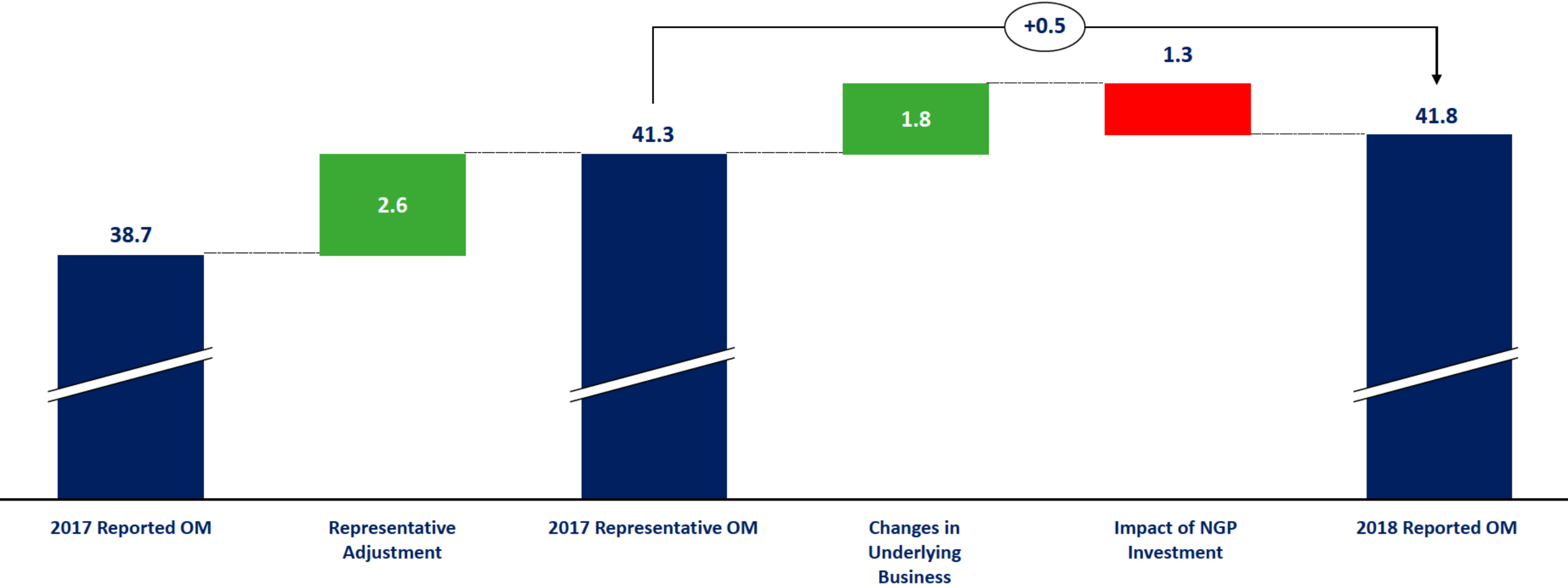
	Constant	Current
Adjusted~ Revenue	£2,784mn  +1.3%*	 -2.8%*
Adjusted~ Profit from Operations	£968mn  +2.2%*	 +0.2%*



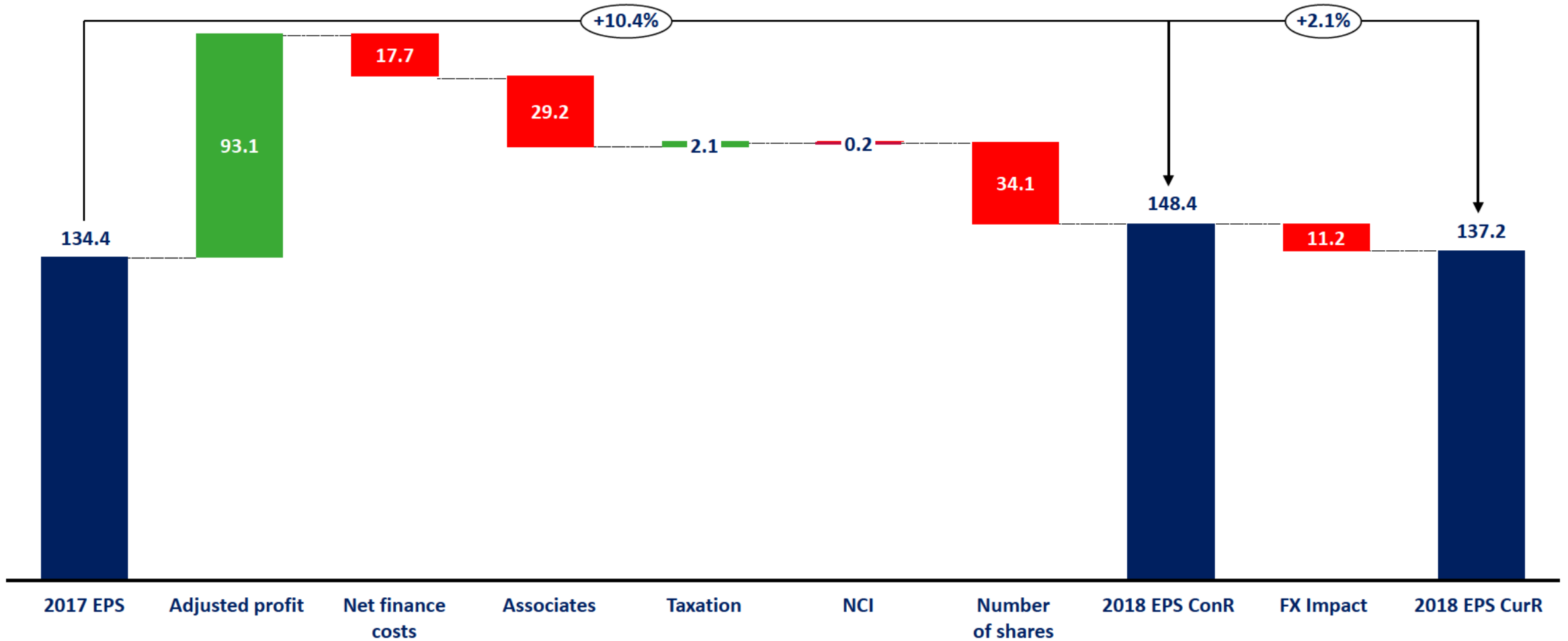
	Main drivers	Offset by
Volume – 117bn sticks	 -3.9%* 	
Strategic brands - 86bn sticks^	 +11.0%* 	
Market Share	 Flat* 	

\* on a representative basis see Appendix A1, ~ see Appendix A2, ^ measured as cigs+THP

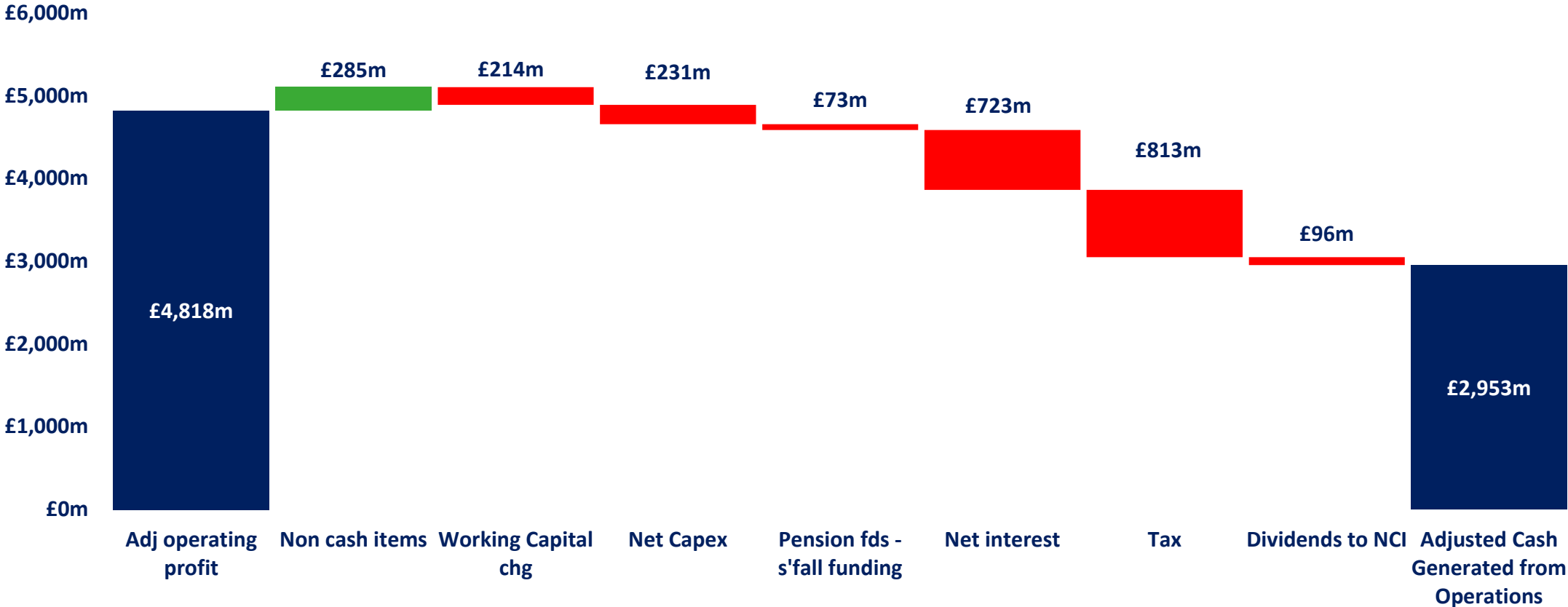
# 2018 Interim Results – Adjusted Operating Margin Up 50bps



# 2018 Interim Results – Adjusted Diluted EPS Growth Drivers



# 2018 Interim Results – Adjusted Cash Generated from Operations





# 2018 Interim Results – Financing

	Key Metrics	2018
<b>Net debt/EBITDA</b>	Returning to the higher end of 1.5x – 2.5x	Targeting around 3x by end 2019
<b>Credit Rating</b> S&P & Moody's	Seeking medium-term recovery to BBB+/Baa1	Credit ratings confirmed at BBB+/Baa2 stable
<b>Dividend</b>	Quarterly dividends effective Jan 2018	

# 2018 Interim Results – Summary

## Volume

Volume

-2.2%\*

Strategic Brand  
Volume

+11.7%\*

## Financials

Adjusted~ Revenue

+1.9%\*

Constant currency

Adjusted~ Profit

+2.4%\*

Constant currency

Adjusted~ Diluted EPS

+10.4%

Constant currency

## Share

Group Market  
Share

+40bps

Strategic Brands  
Share

+160bps

US Strategic Brands

Flat\*

\* on a representative basis see Appendix A1, ~ see Appendix A2

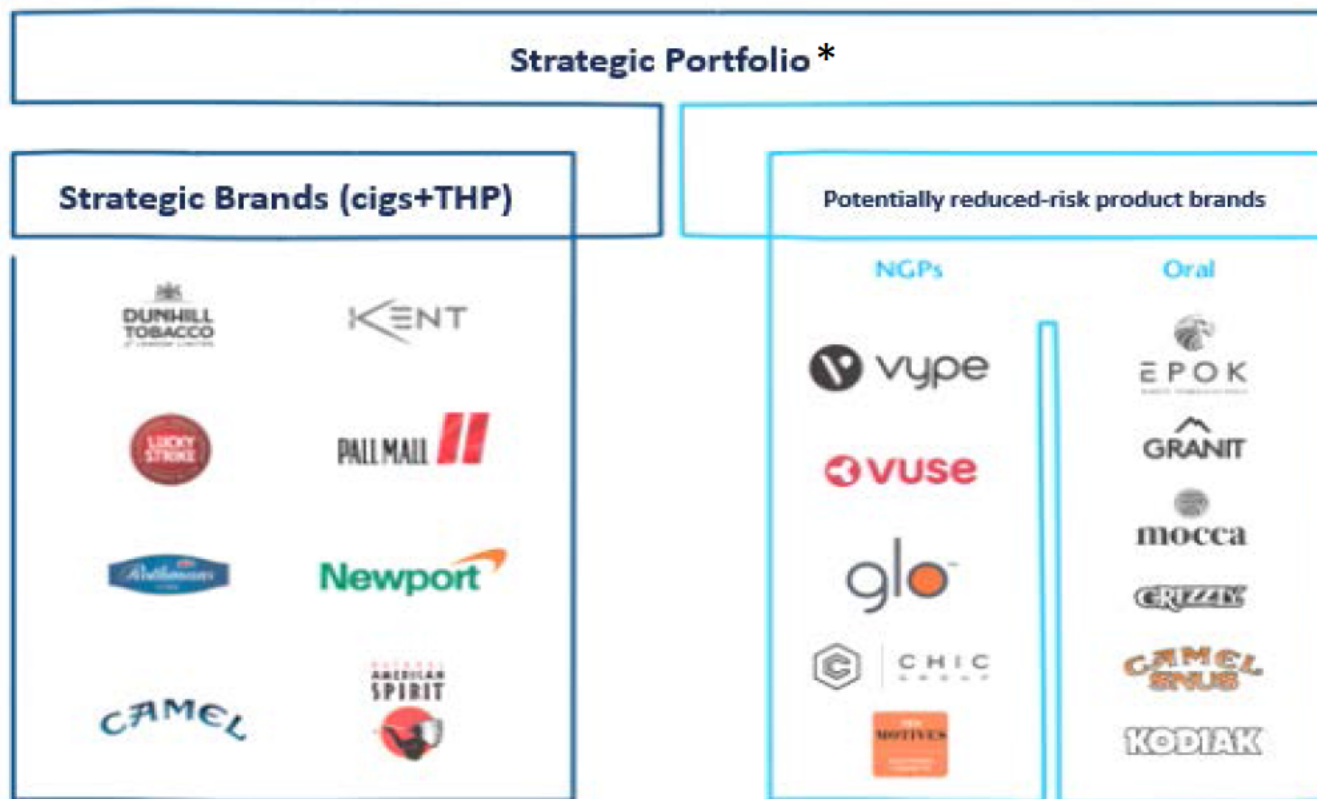
# On track for another good year

Strong growth in the Strategic Portfolio

Reynolds performing well

NGPs on track for full year revenue >£1bn

On track for another good year of constant currency earnings growth



\* The BAT Group does not own all brands referred to in this presentation in all markets e.g. BAT is the owner of the Camel and Natural American Spirit brands in the United States only

# Interim Results 2018

26<sup>th</sup> July 2018

# Appendix

## **A1: Representative basis**

Results communications in 2018 will include presentation of results (volume, revenue and profit from operations) against 2017, as though the Group had owned the acquisitions made in 2017 for the whole of that year. Comparison of results on this basis will be termed “on a representative basis” and will provide shareholders with a results comparison representative of the Group having owned the acquisitions throughout 2017.

## **A2: Adjusting (Adj.)**

In the reporting of financial information, the Group uses certain measures that are not required under IFRS, the generally accepted accounting principles (“GAAP”) under which the Group reports. The Group believes that these additional measures, which are used internally, are useful to users of the financial information in helping them understand the underlying business performance. Adjusting items, as identified in accordance with the Group’s accounting policies, represent certain items of income and expense which the Group considers distinctive based on their size, nature or incidence.