



**BRITISH AMERICAN  
TOBACCO**

# **BRITISH AMERICAN TOBACCO**

Nicandro Durante – CEO

Deutsche Bank Conference, June 2017

# Important notice



This presentation in relation to British American Tobacco p.l.c. (“BAT”) and its subsidiaries (collectively, the “BAT Group”) and Reynolds American Inc. (“Reynolds”) 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 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 presentation regarding the proposed merger of Reynolds and BAT (the “Proposed Transaction”), the expected timetable for completing the Proposed Transaction, the benefits and synergies of the Proposed Transaction, future opportunities for the combined company and any other statements regarding BAT’s, Reynolds’s or the combined company’s future expectations, beliefs, plans, objectives, financial conditions, assumptions or future events or performance 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. 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, expectations and results expressed in the forward-looking statements and other financial and/or statistical data within this presentation. 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: whether the conditions to the Proposed Transaction will be satisfied and the Proposed Transaction will be completed on the anticipated timeframe, or at all; the failure to realize contemplated synergies and other benefits from the Proposed Transaction; the incurrence of significant costs and the availability and cost of financing in connection with the Proposed Transaction; the effect of the announcement of the Proposed Transaction, and related uncertainties as to whether the Proposed Transaction will be completed, on BAT’s, Reynolds’s or the combined company’s ability to retain customers, retain and hire key personnel and maintain relationships with suppliers and their 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 tax laws and rates; the impact of adverse legislation and regulation; the ability to develop, produce or market new alternative products profitably; the ability to effectively implement strategic initiatives and actions taken to increase sales growth; the ability to enhance cash generation and pay dividends; adverse litigation and dispute outcomes; and changes in the market position, businesses, financial condition, results of operations or prospects of BAT, Reynolds or the combined company.

# Important notice



Additional information concerning these and other factors can be found in 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, which may be obtained free of charge from the SEC's website [www.sec.gov](http://www.sec.gov), and BAT's Annual Reports, which may be obtained free of charge from BAT's website [www.bat.com](http://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 presentation, whether as a result of new information, future events or otherwise. 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 or Reynolds for the current or future financial years would necessarily match or exceed the historical published earnings per share of BAT or Reynolds, respectively.

This presentation is an advertisement and does not constitute a prospectus or prospectus equivalent document. Investors should not make any investment decision based on this presentation. A prospectus relating to the BAT ordinary shares to be issued in connection with the proposed acquisition of Reynolds American Inc. will be published in due course.

## Additional information and where to find it

This presentation is neither a solicitation of a proxy nor a substitute for any proxy statement or other filings that may be made with the SEC in connection with the Proposed Transaction. Any solicitation will only be made through materials filed with the SEC. Nonetheless, this presentation may be deemed to be solicitation material in respect of the Proposed Transaction by BAT. BAT has filed relevant materials with the SEC, including a registration statement on Form F-4 that includes a proxy statement of Reynolds that also constitutes a prospectus of BAT. The registration statement has not yet become effective and the proxy statement included therein is in preliminary form. Investors and security holders are urged to read all relevant documents filed with the SEC, including the proxy statement/prospectus, because they contain important information about the Proposed Transaction. Investors and security holders may obtain the documents free of charge at the SEC's website, <http://www.sec.gov>, or for free from BAT at [batir@bat.com](mailto:batir@bat.com) / +44 (0) 20 7845 1000.

## Participants in solicitation

This presentation is neither a solicitation of a proxy nor a substitute for any proxy statement or other filings that may be made with the SEC in connection with the Proposed Transaction. Nonetheless, BAT, and its affiliates and each of their directors and executive officers and certain employees may be deemed to be participants in the solicitation of proxies from the holders of Reynolds common stock with respect to the Proposed Transaction. Information about such parties and a description of their interests are set forth in BAT's 2016 Annual Report, which may be obtained free of charge from BAT's website [www.BAT.com](http://www.BAT.com) and Reynolds's annual report for the year ended 31 December 2016, which was filed on Form 10-K with the SEC on 9 February 2017 and Reynolds's Form 10-K/A, which was filed with the SEC on 20 March 2017 (such filings by Reynolds, collectively, "Reynolds SEC filings"). To the extent holdings of Reynolds securities by such parties have changed since the amounts contained in the Reynolds SEC filings, such changes have been or will be reflected on Statements of Change in Ownership on Form 4 filed with the SEC. Additional information regarding the interest of such parties is also included in the materials that BAT has filed with the SEC in connection with the Proposed Transaction. These documents may be obtained free of charge from the SEC's website <http://www.sec.gov>, or from BAT using the contact information above.

## Non-solicitation

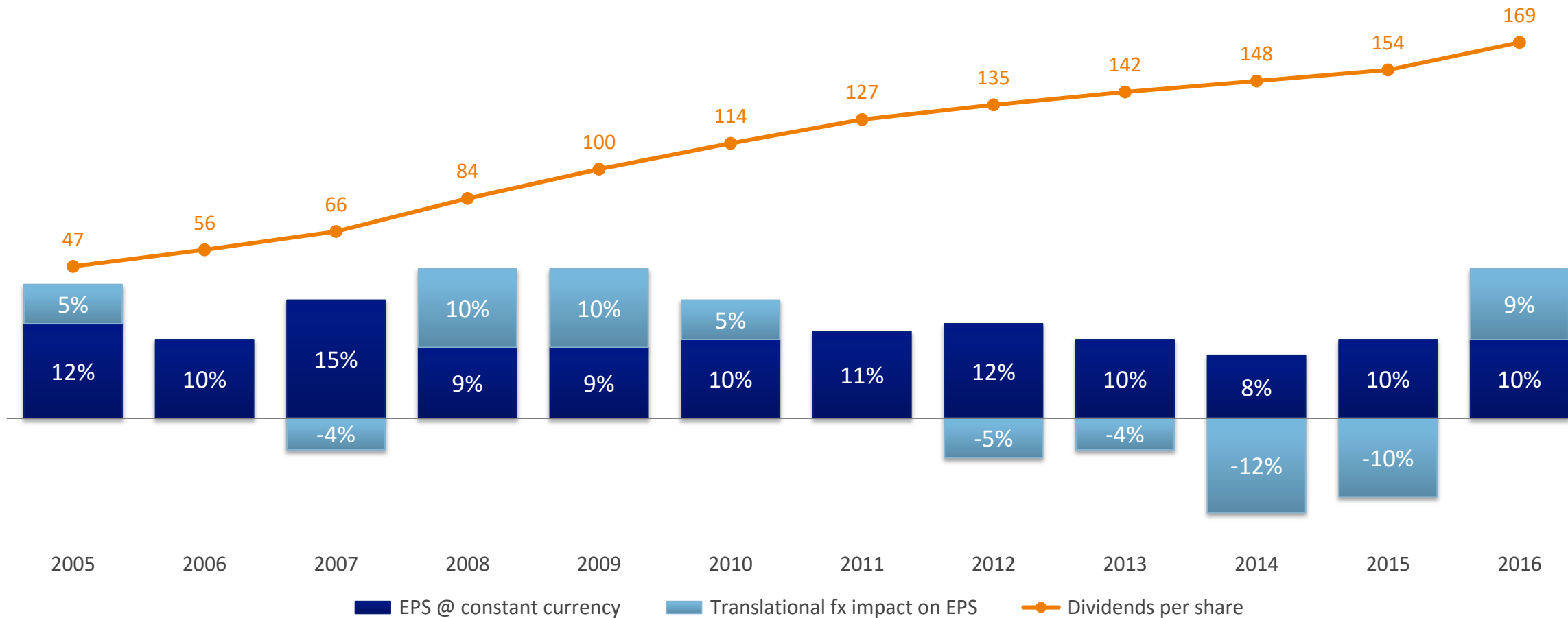
This presentation shall not constitute an offer to sell or the solicitation of an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended. This presentation should not be construed as, investment advice and is not intended to form the basis of any investment decision, nor does it form the basis of any contract for acquisition or investment in any member of the BAT Group, financial promotion or any offer, invitation or recommendation in relation to any acquisition of, or investment in, any member of the BAT Group.

# Consistent growth in earnings and dividend



**Earnings per share growth**  
Average growth 2005 - 2016: 11% p. a.\*

**Dividends per share**  
CAGR:12%



\* Growth @ constant currency

# Our strategy continues to deliver



Strong organic growth powered by GDBs and innovations



Further growth driven by NGP Portfolio & Geographic Expansion

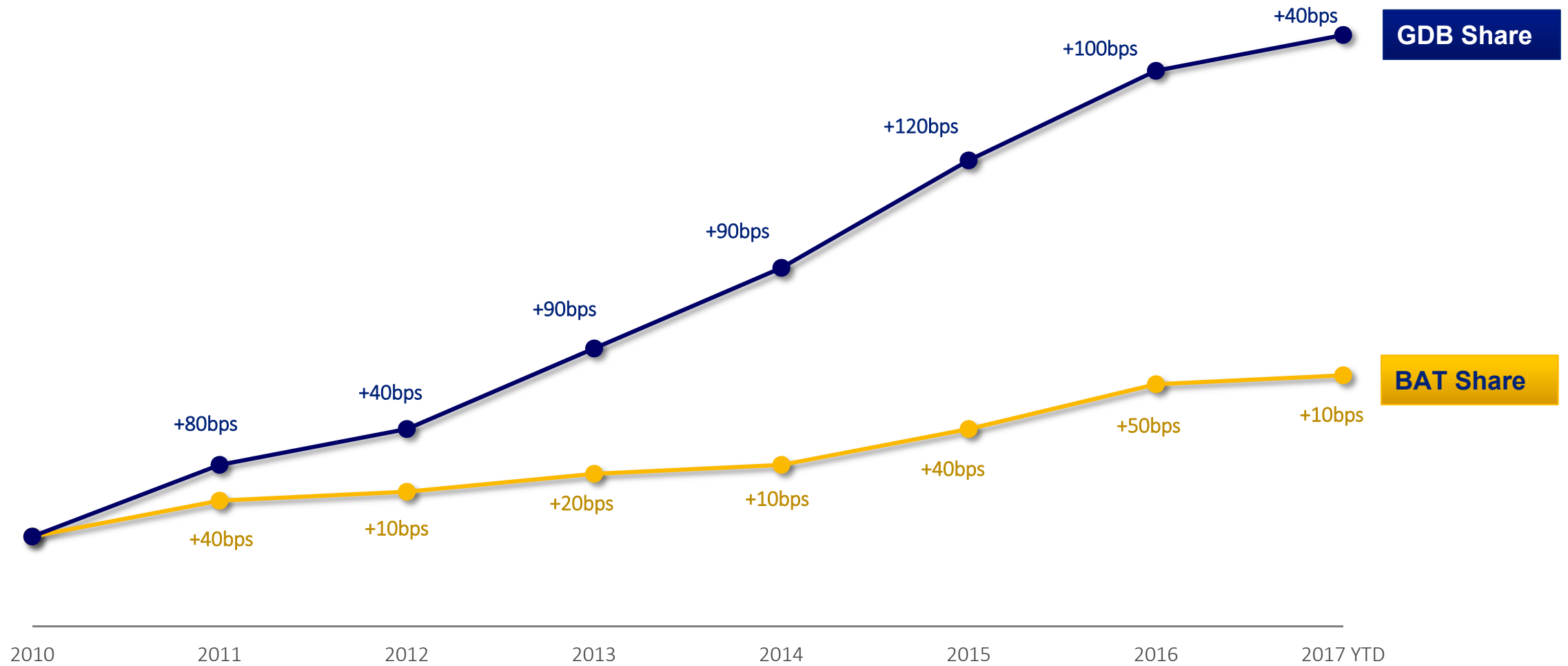


Augmented by strategic M&A in combustibles and NGP



RAI - on track for a transformational deal

# Excellent market share growth powered by GDBs



Note: Reported Year-End Figures/ Independent Nielsen retail audit data / FMC Only/YTD April'17

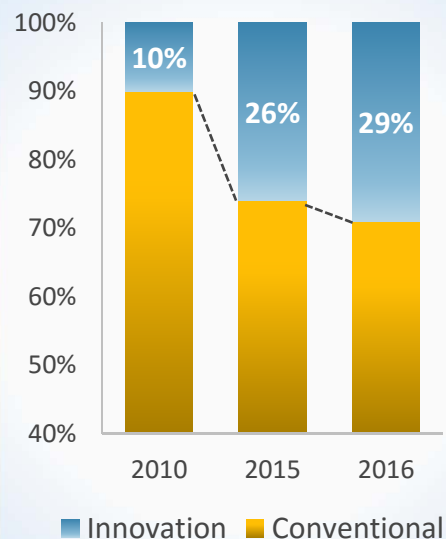
# Driven by an innovation pipeline that is rich and growing

➤ Innovation volume **tripled 2016**  
vs 2010

➤ Innovations | **1 in every 3**  
cigarettes sold

➤ **54%** of GDB volume  
carries an innovation

## CIGARETTE VOLUME



## CAPSULE

**45bn**

2016

**130**

Markets

**28%**

baseline 2015

**All  
Formats**

## TUBE

**94bn**

2016

**97**

Markets

**133%**

baseline 2015

**All  
Formats**

## SLIMMER

**97bn**

2016

**96**

Markets

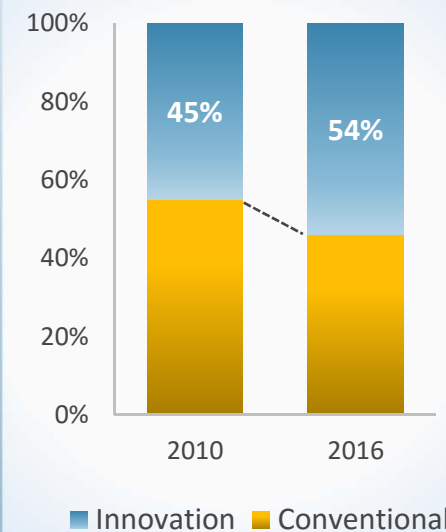
**20%**

baseline 2015

**Demi,  
SL & SS  
Format**

**44% Demi**

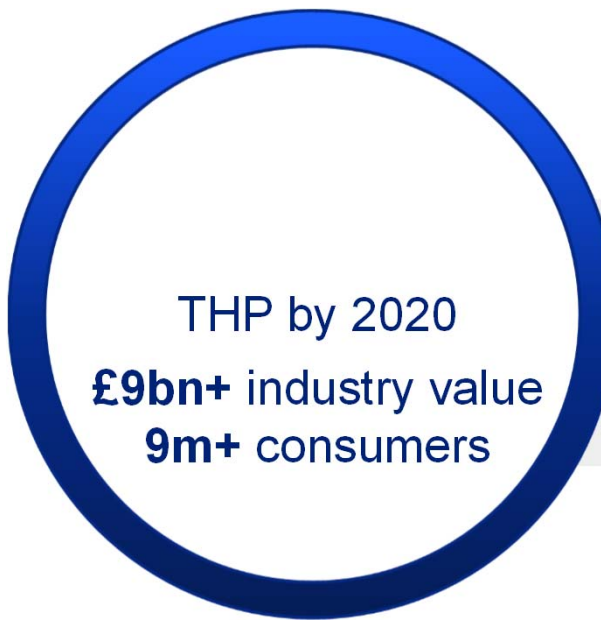
## GDB VOLUME



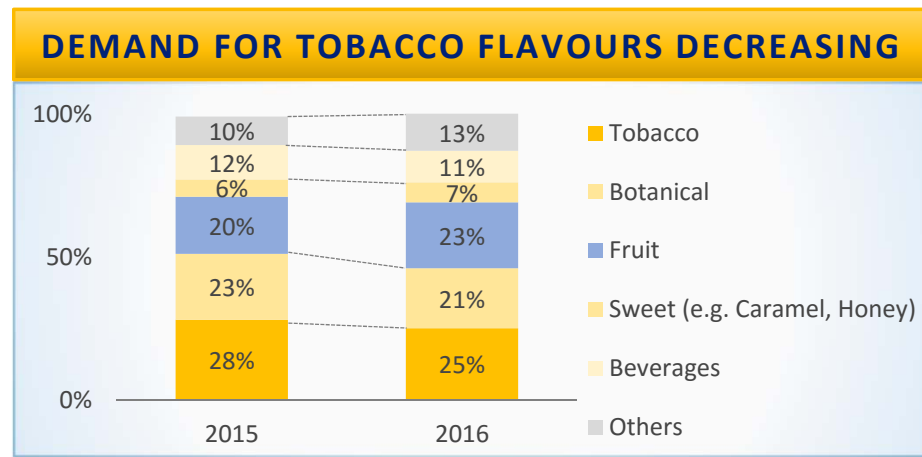
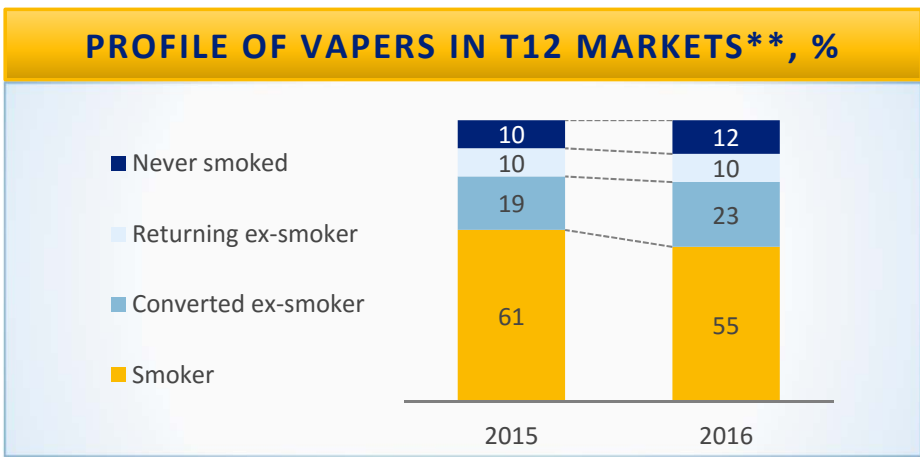


# Differentiated strategy to win in NGPs

- ✓ SOCIAL CONSIDERATION AND HYGIENE
- ✓ FLAVOUR EXPERIENCES



- ✓ TOBACCO TASTE AND SENSORIALS
- ✓ NICOTINE SATISFACTION



\* Internal estimates; T25 markets, excluding US  
 \*\*12 markets (incl. US) annual online consumer tracker

Source: E&Y ENDS report, January 2017

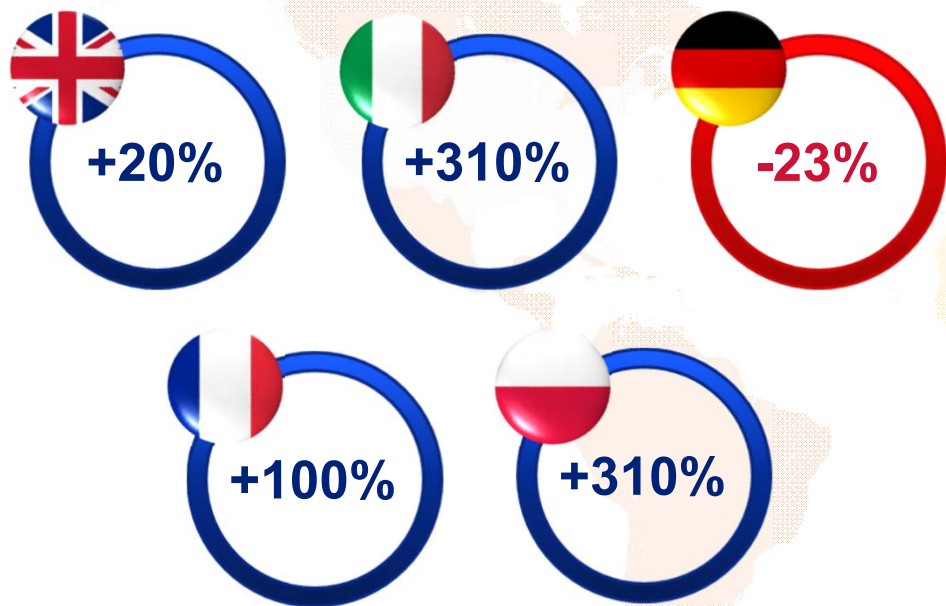


# Vapour – BAT a market leader

› Vype is present in 10 markets globally

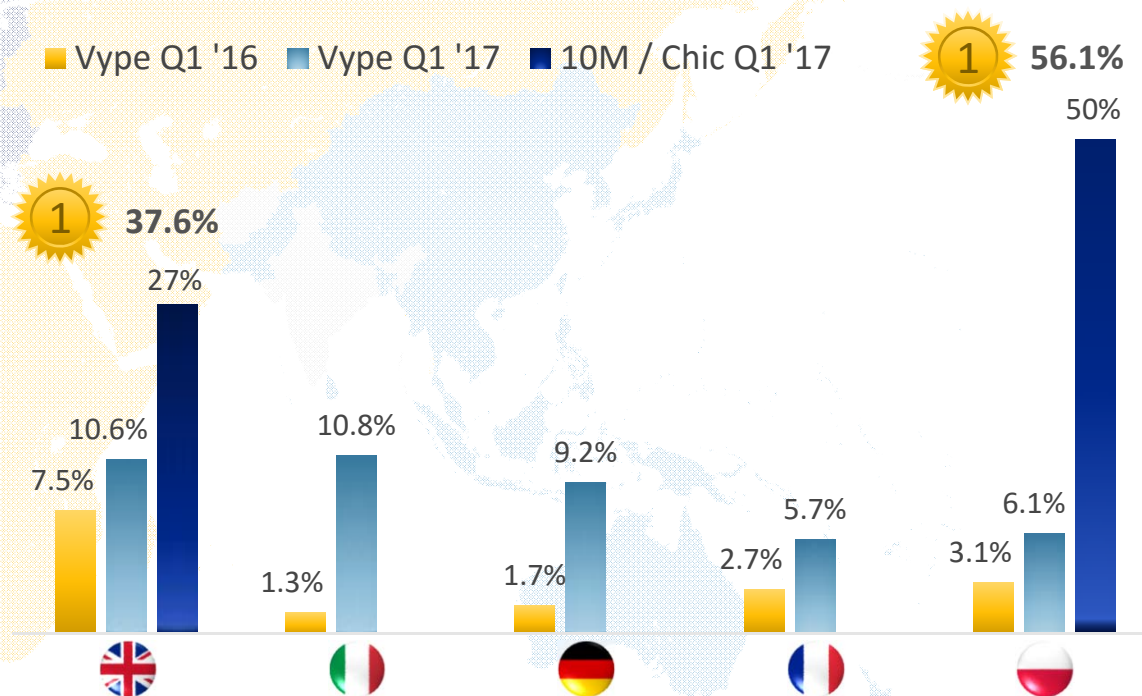
› Market leader in UK & Poland

## BAT VOLUME SALES GROWTH Q1 '17 VS SPLY



Source: BAT volume pack sales sell out; Vype UK retail data from Nielsen; Vype online sales data from Ometria

## VAPOUR SHARE IN RETAIL



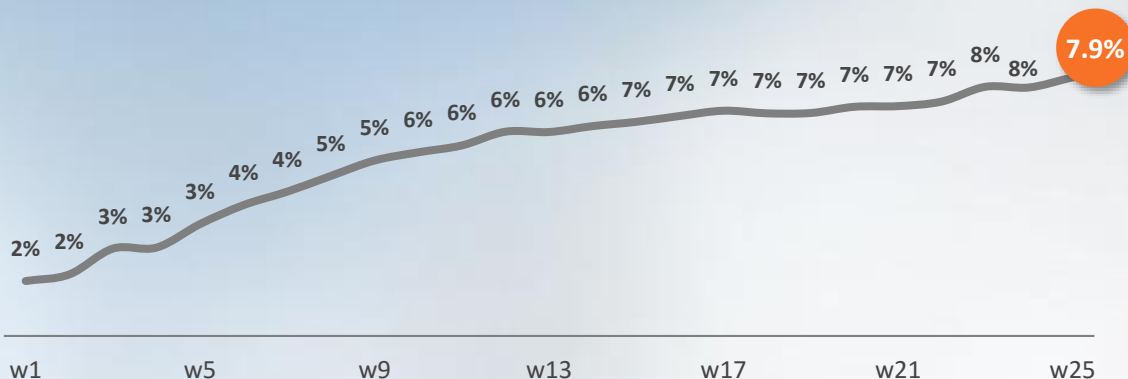
Source: Share in retail: UK Nielsen, all others estimate on shipment sales 6MMA basis

› Strong volume and share growth across key vapour markets

# Tobacco Heating Products - Glo is exceeding expectations

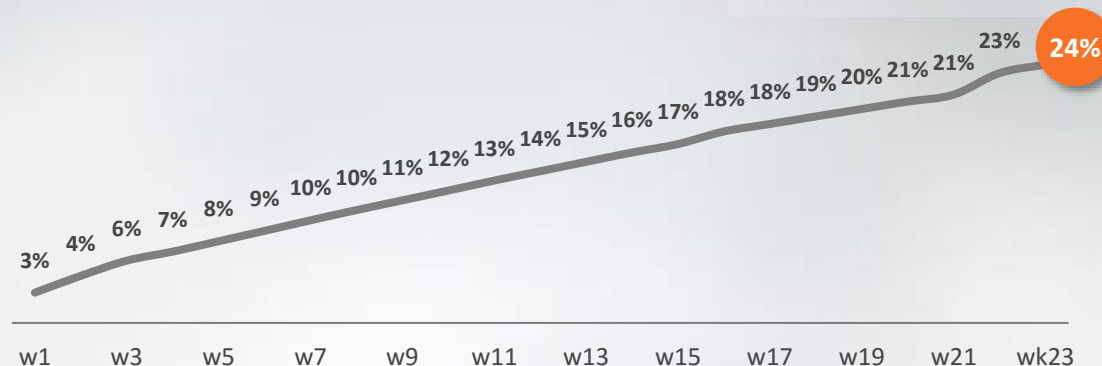


## OFFTAKE SHARE - SENDAI



Based on CVS-B in Sendai

## DEVICE PENETRATION



Based on total estimated device offtake and total adult smoker population in Sendai

## SOLE USAGE

	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17
Glo sole consumers (% of total Sendai smokers)	1.0%	2.0%	3.4%	4.0%	4.3%
Conversion rate (cigarettes to sole Glo usage)	40%	43%	50%	51%	53%

Source: CCC T-Point Purchaser Data N=60,000

## CONSUMER DISPOSITION



Source: BLM Sendai Week 8

# THP – Glo roll-out on track



## JAPAN (July 2017)

**July 3<sup>rd</sup>:** Expansion to Tokyo / Osaka / Miyagi covering 25% of tobacco consumers

**By end of 2017:** National Expansion  
National awareness already at **25%**



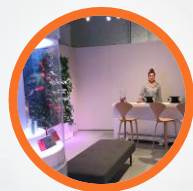
## SWITZERLAND (April 2017)

Launched in one of the biggest retailers nationwide



## CANADA (May 2017)

Launched in Vancouver



## SOUTH KOREA (H2 2017)

Launch announced for H2 2017

# Strategic M&A augmenting growth in NGP & tobacco

## NGPs



### UK - VIP acquisition

› Accelerated retail network expansion



### UK - 10 Motives acquisition

› Strengthened market position, together with Vype, BAT is now the market leader



### Poland - CHIC acquisition

› Accelerated retail network expansion and leading market position

## TOBACCO



### Bulgaria - Bulgartabac acquisition

› Market leading position of 40% in Bulgaria



### Sweden & Norway - Winnington Holdings acquisition

› Unique White Snus product – EPOC - only growing Premium brand in Sweden and Norway

# RAI - A transformational transaction

Creates stronger, truly global tobacco & NGP company



Direct access to the attractive US market

Balanced presence in high growth emerging markets and high profitability developed markets

Portfolio of strong, growing global brands

A truly global company in the fast-growing NGP category

At least \$400m of annualised cost synergies anticipated by the end of third full year

EPS and DPS accretive in the first full year

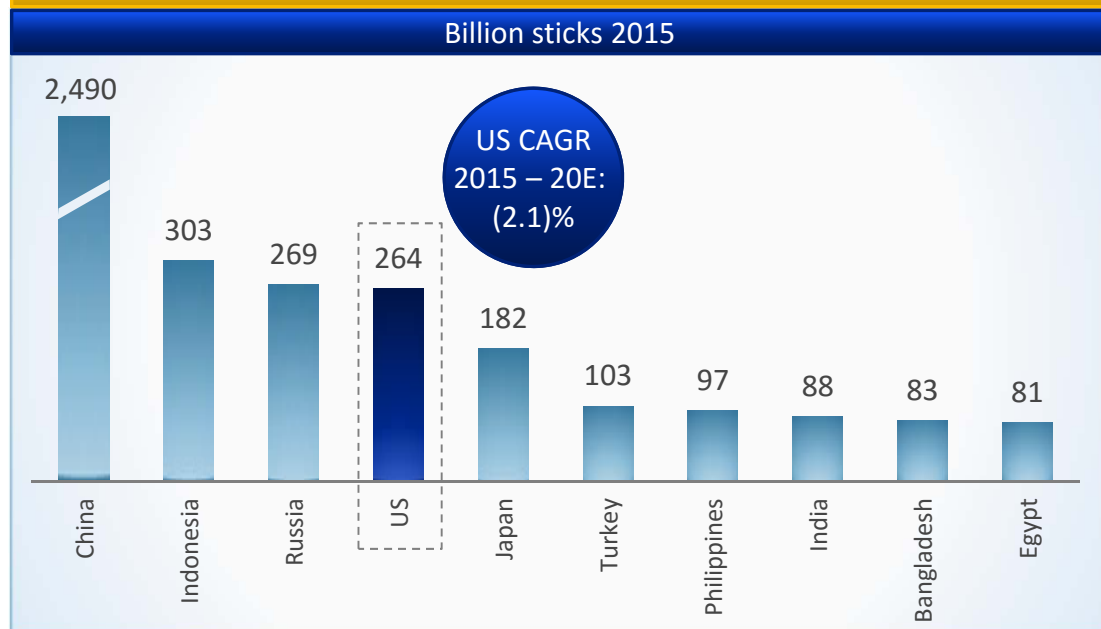
Enhanced cash generation with increased access to a significant proportion of group cash flows

Continued commitment to BAT's dividend policy with a payout ratio of at least 65%

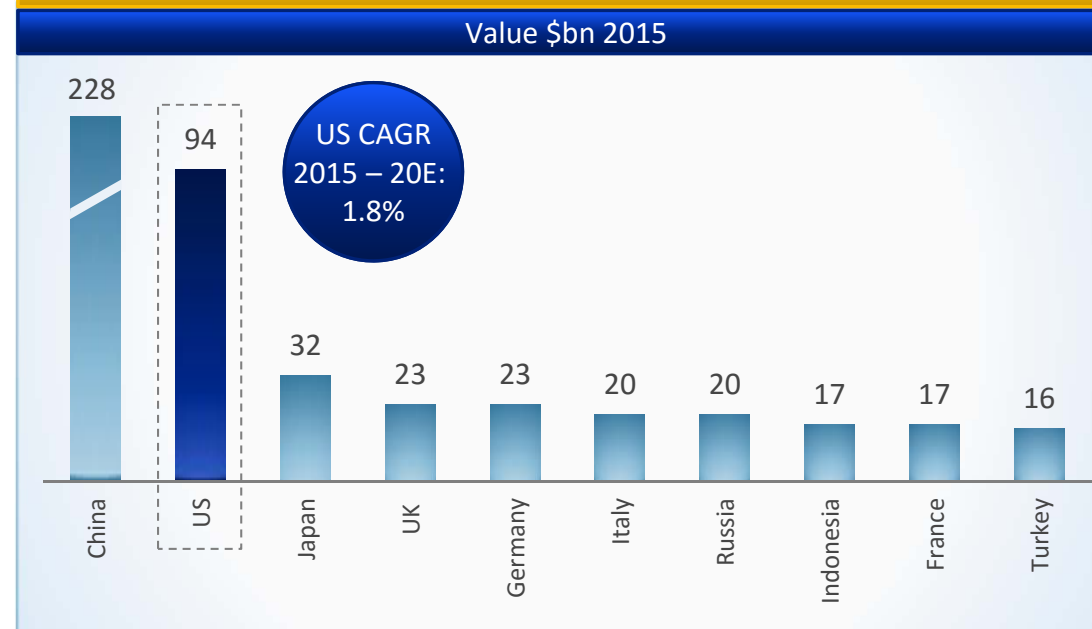


# Highly attractive US market

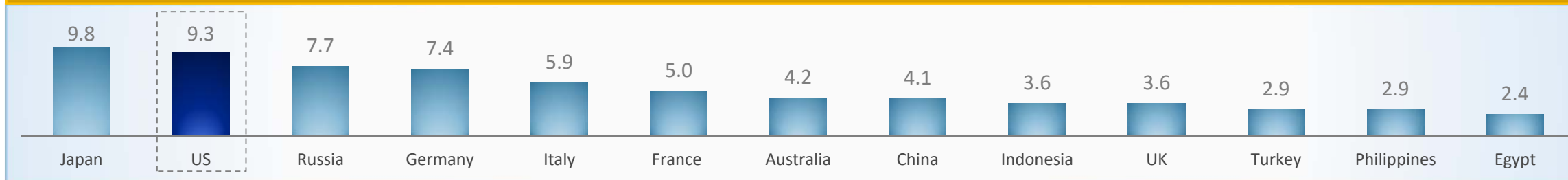
## ONE OF THE BIGGEST TOBACCO MARKETS BY VOLUME...



## ...AND LARGEST OPEN MARKET BY VALUE...



## ...WITH LOW CIGARETTE PRICES RELATIVE TO INCOME\*



\*Income defined as GDP per capita ('000) / average pack price (US\$)

Source: Euromonitor, Global Insights, Company internal data



## RAI – On track for completion early Q3

- › SEC registration process expected to be completed shortly
- › Shareholder documents expected to be published shortly
- › Shareholder vote mid-July
- › Completion expected shortly thereafter



- › Trading in line with expectations
- › Market share growth momentum continues: +10bps\* YTD, on top of +50bps in 2016
- › Profit growth expected to be weighted to the second half, due to:
  - › Phasing of volume shipments
  - › NGP investments
  - › Marketing spend
- › At current rates FX a 7% tailwind for translation on FY operating profit and 13% on H1 operating profit

\* Nielsen Retail Audit, April 2017 YTD

› The business is performing very well



# Last 5 years – consistent delivery for shareholders whilst also investing for the future

Corporate share up  
170 bps

GDB share up  
530 bps

One of the largest NGP  
businesses in the world

EPS +10%\* average  
growth p.a. last 5 years

DPS +6% CAGR last 5 years



Portfolio Transformation

\$1bn



...While also investing in our future



**BRITISH AMERICAN  
TOBACCO**

# **BRITISH AMERICAN TOBACCO**

Deutsche Bank Conference, June 2017