

Fixed Income Investor Update 2019

Tadeu Marroco

Group Transformation Director & Deputy Finance Director

Neil Wadey

Group Head of Treasury



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. In particular, these forward looking statements include statements regarding the BAT Group’s future financial performance, second half 2019 New Category revenue, planned product launches and future regulatory developments.

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 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.

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, Velo 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.

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.

Delivering a stronger, simpler, faster organisation

COMBUSTIBLE VALUE
GROWTH

STEP-CHANGE
IN NEW CATEGORIES

SIMPLIFY THE
COMPANY

- › **Deliver 50-100bps of margin improvement pa**
- › **Release funds for growth**
- › **Focus on investment returns**
- › **Generate cash to de-lever the balance sheet**

Industry leader in DJSI and Gold Class award

**Dow Jones
Sustainability Indices**

In Collaboration with RobecoSAM



ROBECOSAM
Sustainability Award
Gold Class 2018

Top 5 FTSE 100 ranking

FTSE 100 & the UK Modern Slavery Act:
From **Disclosure to Action**

81% score
in Workforce Disclosure Initiative



WDI
Workforce Disclosure Initiative

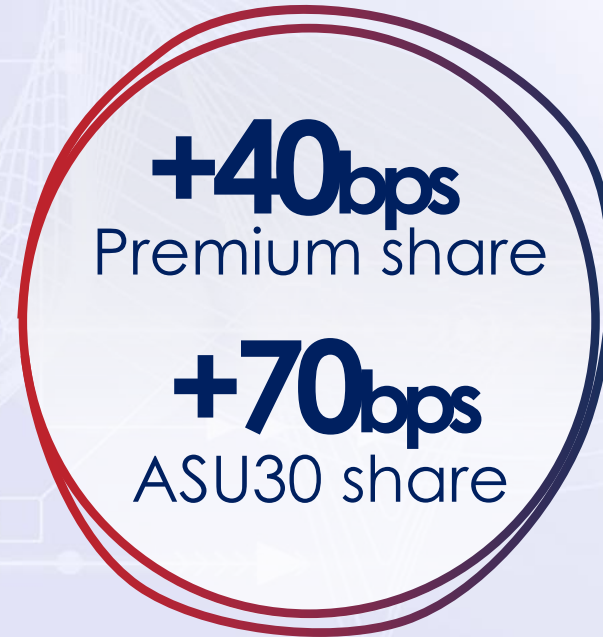
Delivering on our financial objectives

	REPORTED HY 2019 @ Current rates	2019 Guidance	ADJUSTED HY 2019 @ Constant rates
Revenue	+4.6%	Mid-Upper end +3-5%* of range	+4.1%
New Category Revenue	+31.3%	+30-50%*	+27.3%
Operating Margin	-210 bps	+50-100 bps	+110 bps Current rates
Profit From Operations	-1.3%	Upper end of +5-7%* range	+5.9%
Diluted EPS	+4.6%	High Single Figure*	+7.1%
Leverage	-	-0.4x ex-currency	on track

* Adjusted and constant rate basis. See Appendix A1-A2. Source: Company data

Source: Internal Estimates

Winning in the US where it matters



Industry volume	HY	-5.4%**
	FY estimate c.	-5.5%

*Adjusted and constant rate basis. See Appendix A1-A2. ** STW: Shipments to wholesale. Source: Company data

New Category revenue growth on track for FY guidance

+27%
H1 growth*



Around the middle of
+30-50%
FY19 growth*~

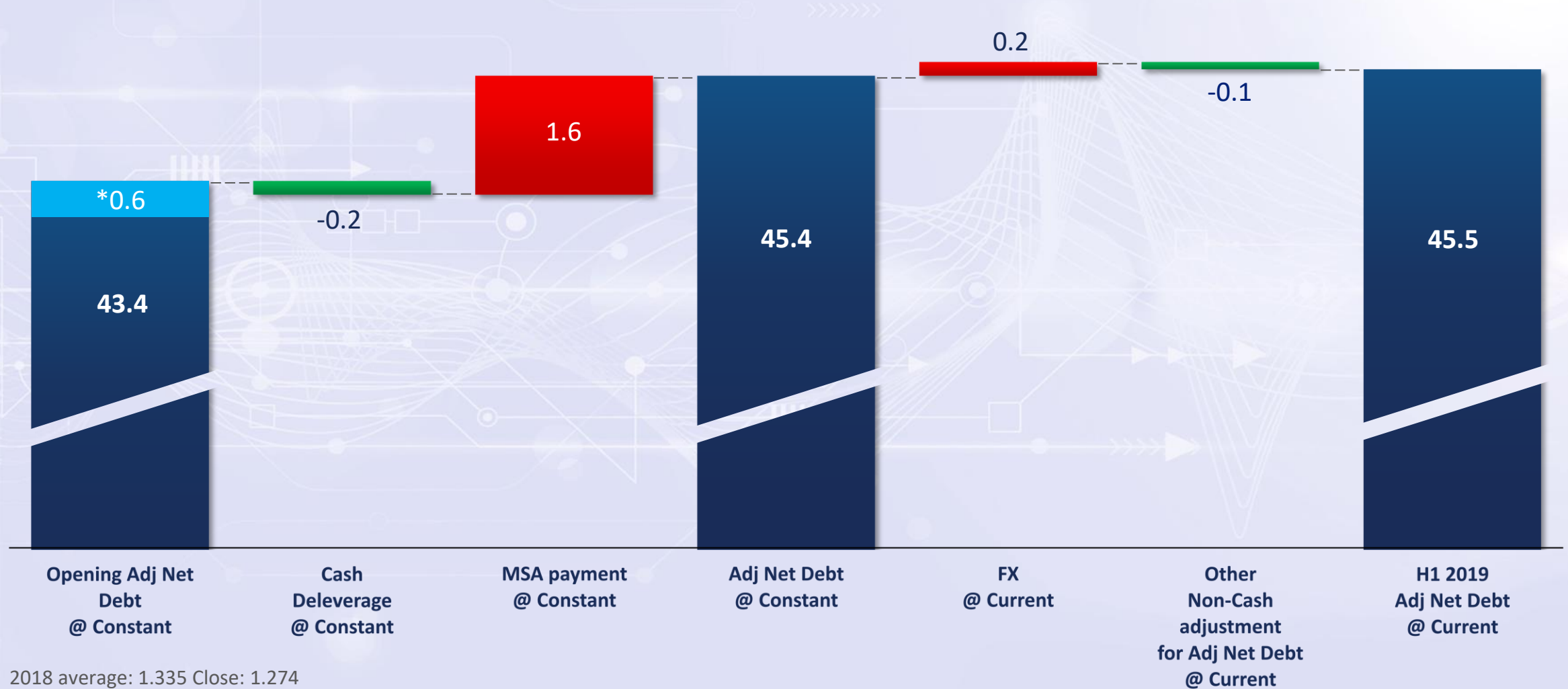
+58%
H1 Vapour growth*

+284%
H1 Modern Oral growth*

+4%
H1 THP growth*

**Adjusted and constant rate basis. See Appendix A1-A2. ~ FY19 guidance Source: Company data*

Adjusted Net Debt higher due to MSA payment timing and IFRS 16



2018 average: 1.335 Close: 1.274

2019 H1 average: 1.294 Close: 1.273

*Opening Net Debt includes IFRS16 impact £0.6bn

On track to de-lever at 0.4x ex-currency

Adj Net Debt* /
Adj EBITDA*

FY19 guidance



**Adjusted Net Debt is total borrowings, including related derivatives, less cash and cash equivalents and current available-for-sale investments, excluding the impact of the revaluation of RAI acquired debt arising as part of the purchase price allocation process.*

Adjusted EBITDA is not a measure defined by IFRS. Adjusted EBITDA is profit for the year before net finance costs/income, taxation on ordinary activities, depreciation, amortisation, impairment costs, the Group's share of post-tax results of associates and joint ventures, and other adjusting items.

Financial Policy

- › De-leveraging at 0.4x per annum at constant FX, returning to the higher end of historic Net Debt / EBITDA target of 1.5x to 2.5x
- › Targeting £1.5bn free cash flow after dividends
- › Medium term aspiration of BBB+ / Baa1 with S&P and Moody's
- › No significant debt financed M&A or share buy-backs
- › Distribute 65% of long-term sustainable earnings

Principles

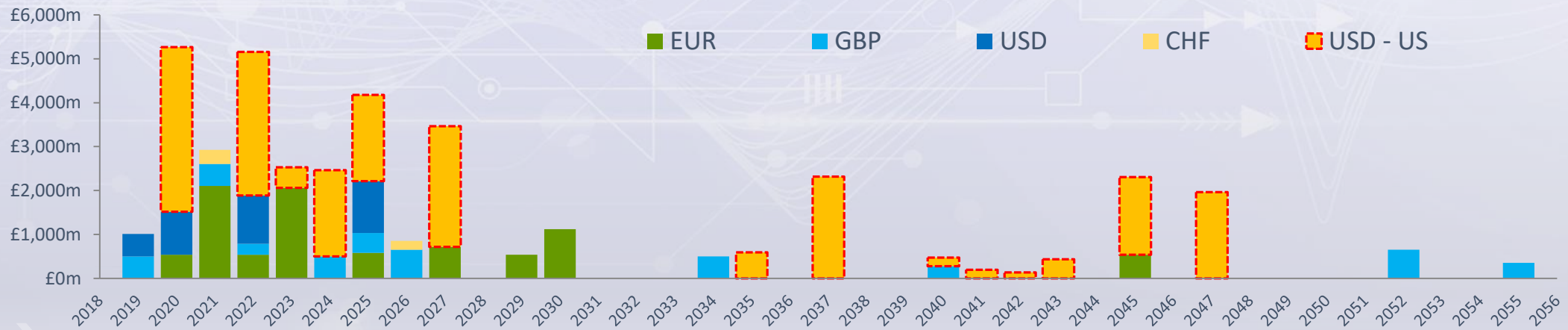
- › Strong Group liquidity, sources versus uses ratio of >1.2x
- › Average debt maturity of at least 5 years
- › ≤ 20% of total debt maturing on a rolling 12-month basis
- › Interest cover ratio >5.0x

Bond maturity profile & fixed / floating mix

Recent activities

- › **2017:** issued USD denominated bonds under Rule 144A to finance the Reynolds acquisition
- › **2018:** completed exchange offer of unregistered 144A bonds for registered bonds
- › **2019:** filed inaugural SEC shelf programme

EMTN and Shelf Programme will be the principal means to access debt capital markets for medium to long term funding



As at 30 June 2019 the weighted average maturity (including term loans) is 8.6 years with 83% of the portfolio fixed and 17% floating respectively. On a net basis the Group's debt is denominated 63% in US\$, 14% in Sterling, 15% in Euros with the balance of other currencies at 8%.

Strong H1 results

Volume
-3.5%

Adjusted Revenue
+4.1%*

Adjusted Profit from Operations
+5.9%*

Adjusted Diluted EPS
+7.1%*

Group market share
Flat

Group value share
+10bps

Strategic brand market share
+60bps

Strategic brand value share
+50bps

**Adjusted and constant rate basis. See Appendix A1-A2. Source: Company data*

On track for a good year

COMBUSTIBLE VALUE
GROWTH

STEP-CHANGE
IN NEW CATEGORIES

SIMPLIFY THE
COMPANY

- › On track for the full year guidance
- › New Category revenue expected around the middle of 30-50% range
- › Building a stronger, simpler, faster organisation
- › On track to de-lever at 0.4x ex-currency
- › Delivering high single figure EPS growth



Q&A

Appendix

A1: Adjusting (Adj.)

Adjusting items are significant items of certain financial measures which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance because of their size, nature or incidence. In identifying and quantifying adjusting items, the Group consistently applies a policy that defines criteria that are required to be met for an item to be classified as adjusting. 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.

A2: Constant currency

Movements in foreign exchange rates have impacted the Group's financial results. Measures are calculated based on a retranslation, at prior year's exchange rates, of the current year's results of the Group and where, applicable, its segments. Although the Group does not believe that these measures are a substitute for IFRS measures, the Group management board does believe that such results excluding the impact of currency fluctuations year on year provide additional useful information to investors regarding the Group's operating performance on a local currency basis.