

Capital Markets Day

Event Transcript

Wednesday 16 October 2024

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Victoria Buxton, Group Head of Investor Relations

Good morning everybody and welcome to the BAT 2024 Capital Markets Day. I'm Victoria Buxton, Group Head of Investor Relations. Thank you for taking the time to travel to Southampton to join us at our new Innovation Centre. It's great to see so much interest in BAT, both from new faces and familiar faces. And I'd like to wish a warm welcome to all viewers who are joining us online today.

Before we start, I'd like to draw your attention to the following cautionary statements, which apply throughout the day.

BAT is transforming. Since our last Capital Markets Day, we have a new management team, a refreshed strategy, and over 15 million more consumers of our smokeless products and much, much more you'll hear about during the course of the day. During the sessions today, you'll see how the BAT teams are focused on Building a Smokeless World by reducing the health impact of our business and enabling BAT to deliver long-term sustainable value to its stakeholders. Joining us today are many of our BAT colleagues from across the business and members of our management board, so please do ask a lot of questions during the course of the day.

The presentations will start shortly, and I will return later to introduce the breakout sessions. We will be here in this room until 12:15, when we will then move to the first breakout. The webcast will be paused at that point until we return at 2:55 PM for our afternoon presentations. I am now delighted to hand over to my colleague, Dr. James Murphy, our Director of Research and Science. James has played a critical role in our transformation from the start. And as you will hear, is passionate about our tobacco harm-reduction journey. James, over to you.

Dr. James Murphy, Director, Research & Science

Thank you, Victoria, and a very warm welcome to our guests who are both with us in-person and joining virtually today. I joined BAT 20 years ago on the promise of the company's ambition to be the first tobacco company to successfully launch a new generation of tobacco products that would, over time, be recognised by public health as reduced risk. BAT has come a long way in the subsequent 20 years in terms of its ambitions, and no more so right here on our Southampton campus. This very building you're sitting in today was once the primary manufacturing department part of the Southampton factory. In this very building, tobacco was processed and sent across to the secondary manufacturing department to make cigarettes.

Over the intervening years, this site has become synonymous with our transformation. First prototyping and assessing first Vuse Vapour products in the early 2010s, the development of glo in the mid 2010s, and finally, Velo in the late 2010s. The Southampton campus has transformed alongside our strategy and no more so than this innovation centre, which was opened in March 2024 by our chief executive. Today, you sit in the central hub of our global innovation ecosystem, and we are excited to welcome you, display our capabilities, and illustrate how we are building a portfolio of innovative commercially and environmentally sustainable smokeless products that will enable us to build a better tomorrow through a smokeless world.



You'll also get to see the other side of our transformation, our people, our most valuable asset. And today, we have around 800 scientists and engineers on this very site, part of a global R&D community of around 1,750 people. You'll hear much more on these topics later today, but for now, I hope you have an informative and enjoyable day. Thank you.



Tadeu Marocco, Chief Executive

Hello, everyone. It was lovely to see some of you yesterday night. For those of you who have just arrived today, a warm welcome to our innovation hub here in Southampton, as well as for those that are watching via the webcast. My managing board and I, we are very excited to have the opportunity during this day to talk to you about our business, the capabilities that we have been building and the progress that we have been making towards our ambition. And more important, to showcase some of the key BAT talents that we have in the group.

So, it's been almost 18 months that I have since being appointed Chief Executive at BAT. This was a moment of pride for me after spending a career spanning more than three decades and a great opportunity to bring focus and discipline to the execution of our strategy. Since I became the Chief Executive, we have set a compelling ambition for the future and to be a predominantly smokeless business by 2035, and I have become more and more confident in our ability to achieve our ambition in the next decade.

And why do I say this? Well, first of all, we are in a growing industry, executing a multi-category strategy that give us a unique position to grow in all attractive value pools. We also have dramatically improved our capabilities in consumer insights and foresights and innovation, and have built foundations for our future beyond nicotine. Our discipline quality growth model is already delivering in Europe, and our investments in the U.S. have set us well for the American business to replicate our European success and to be the cornerstone of our future growth.

We have the science capabilities to substantiate tobacco harm reduction and a front-footed approach to help shape our regulatory landscape. And as Soraya will present at the end of the day today, we have a disciplined approach that will ensure that we deliver quality revenue growth, cost optimisation, smart reinvestment, and New Categories and cash returns, in order to deliver upon our mid-term algorithm. And as we are well on our way to resetting the culture of the business to enable our top-class talents to deliver on our transformation.

So, in short, I'm confident that we have the right strategy, that we have the capabilities to deliver and that we have the right people to deliver profitable transformation. Now, let me deconstruct this story for you.

I do believe that we have the right strategy, I said that since day one. However, when I became CEO, I felt we needed to be more specific about what a better tomorrow means, and more importantly how we will deliver it. As such, one of my first priorities was to refresh our strategy with a clear focus on what needs to be done. The three pillars of the strategy contain clear focus areas that is for us our executional compass.. It's a clear focus on what we call quality growth, it's a front-footed effort to ensure a sustainable future and improving an already dynamic business, all underpinned by our group values.

I was very clear from day one that a focus on execution and our culture transformation were critical to our sustainable future. So, in line with this, I made some change in the management board to be aligned with this vision. As evidence of this today, you'll be hearing from Cora, our chief people officer, on the progress that we have made. And you will also be hearing from and meeting a broad range of BAT people here today. So, I'm sure that they will highlight BAT's exceptional talent and personify BAT's cultural transformation in action.

So, as I mentioned earlier, the strategy is already beginning to deliver and we have a good foundation to build towards our ambition. Despite the challenges that you are all aware of, we have already come a long way in our journey to build a smokeless world. In the first half of 2024, 18% of our group revenues came from smokeless products. And if you strip out, exclude the U.S. combustible business, which is a fair comparator to some of our peers, today 27% of our revenue comes from smokeless products. Is this as much or as fast as I would want? The answer is no, but this is far ahead of most of our peers. And we have now built a strong base upon which to grow.

Since day one, I was clear we had many areas of opportunities, but also areas for improvement. With that in mind, I defined six short-term priorities for the business. Over the last 12 months, working together with our broader teams, we have achieved a lot across those six areas of focus. We will touch on some of these highlights in more detail as we go through the day today, but among all the initiatives, I would like to highlight some of those. We have achieved profitability of our new category business two years ahead of our plan. We have made targeted investments in the U.S. combustible business, with early signs of improvement. We have improved our financial flexibility and initiated a sustainable buyback program and continued strong cash generation in the sale with a partial stake in our ITC associate. And we have launched Omni, our manifesto for building a smokeless world. While there is still much more to do for sure, we are making good progress and I'm confident that the choices we have made and the actions we are taking are the right way forward for BAT.

One thing that will not change is our commitment to strong cash returns, as we have demonstrated even through more challenging macroeconomic periods. With over £30 billion returned to shareholders since 2018. And as Soraya will detail at the end of the day, we remain committed to our progressive dividend policy, as well as sustainable buyback program.

As I look forward, there are 10 key reasons why I fundamentally believe in the future growth prospects of BAT. I will now take time to explain these reasons to you, which will be the essence of the presentations and exhibitions you will see during the day.

My first reason to believe is that New Categories consumers have more than doubled since 2018, but this is only the start. There is still a huge pool of more than a billion potential combustibles consumers, with the opportunity to switch to New Categories if

they decide to and have the chance to do so. As consumers increasingly switch to New Categories, the value of the nicotine industry is growing at an accelerating pace. Within that, New Categories will be the driver of the growth. So, BAT is positioned well in a growing value industry, which, if anything, is expected to accelerate in the years to come.

The second reason I believe in the future of BAT is that multi-category is a reality today. Meaning, that with our multi-category strategy, BAT is positioned to succeed in all attractive value pools. The growth of New Categories has been driven by changing consumer's preference with consumers now choosing multiple alternatives to traditional combustible products. More and more consumers are moving to poly-usage with different patterns in different geographies, based on regulations, based on consumer taste profiles, and the availability of the products in the market. There is no clear winner with users typically using different categories, including combustibles. A multi-category strategy can sometimes be difficult to execute, believe me, as it requires material, upfront investments and takes longer to be developed. However, a multi-category approach can provide deep insights and foresights about consumers, as Julian will explain in his presentation. Given the ability to innovate in smokeless offers across categories.

So, how is BAT positioned in this environment? Well, as I mentioned, I believe BAT is best positioned given the multi-category approach that we have taken since day one. Our portfolio of combustibles and non-combustibles brands is well-placed to meet consumer's preference and at a scale where we can drive additional value and efficiencies. Combustibles remains the solid cash-generative core or of our business, and that despite global volumetric decline as consumers shift towards smokeless products.

With Velo, we are the clear leader in Modern Oral, outside of the U.S, with 45% of the business now outside traditional oral markets. And as you'll hear later from David, we have started making roads in the U.S. market. Vuse is the global value share leader in Vapour and the leading brand in the U.S. and has been profitable for several years. And here, as Zafar will explain later, we have significantly improved our innovation pipeline. In Heated Products, I have acknowledged our past challenges. However, I'm confident that we are now turning the corner with glo Hyper Pro and there are, out there, opportunities ahead to drive significantly better markets and financial performance from the Heated Products business, as you'll hear from Luciano.

As you can see, our consumer-led strategy has left us with strong brands and products in all categories, and puts us in a great position to adapt to change in consumer demand that will emerge over time. The multi-category strategy requires new capabilities working in harmony. Because of this we have completely rebuilt our innovation ecosystem with seamless integration between consumer insights and foresights, science and consumer activation. Over the last 18 months, we have made improvements related to IPs, product lifecycle management, technical expertise, data integrity and science. And we believe that we now have unique capabilities, leveraging our external

partners to develop breakthrough innovations. We will showcase those capabilities today to you.

The third reason to believe in BAT's future is that we know our consumers and, we think, better than anyone. As you hear from Julian in a moment, we have significantly improved, transformed and modernised our insights and foresights capabilities to face the new consumer reality, fuelled by a decade of multi-category experience. This means that we have actionable insights to address current consumer needs and foresights to guide future innovation plans.

The fourth reason to believe is that, as I mentioned earlier, we have transformed our entire innovation ecosystem. This has allowed us to step change our product portfolio in the past 18 months and to create a winning innovation pipeline across the New Categories that we will start to roll out over the coming months. You'll hear more details from that from Zafar and Luciano on this transformation later today.

The fifth reason to believe is our quality growth imperative, which is a vital part of BAT's strategy. With a balanced focus on top and bottom line, that's what quality growth means. I'll go into a bit more detail here in this session to illustrate how our quality growth imperative is driving results in action and how prioritisation and focus is now transforming our business in Europe.

So, first, as a background, Europe is a truly multi-category region, driven by both consumer preference to switch to new category products and the presence of appropriate regulation. This is driving increasing number of new category consumers and the reduction in the number of smokers. This is particularly true in the younger age cohorts, with close to half of adult nicotine consumers under 30 now choosing New Categories from less than 30% back in 2020, confirming the sustainable future growth potential of the New Categories.

In Europe, more than a third of total nicotine consumers are actively using New Categories. While all New Categories convert combustible consumers, it should be noted that Vapour, where BAT is the industry leader, is the most successful category in converting combustibles consumers to solus new category users. And BAT has played an active role in driving the New Categories footprint expansion in Europe. Today, we sell at least one new category product in 44 markets across Europe, covering the vast majority of the European New Categories gross margin pool.

Now, the three New Categories are margin accretive for BAT in Europe. Heated Products consumables are almost two times more profitable than combustibles. Vapour products are over 1.5 times more profitable. And Modern Oral pouches are more than four times more profitable than combustibles. And the reason for this is that BAT is historically strongest in Europe in the value for money and the low segments of combustibles,

which make the size of the prize for BAT particularly high to convert combustibles consumers to smokeless offers.

An individual analysis of our performance in each category demonstrates the progress we have made in Europe. In Heated Products, we manage to reverse the category share decline we recently experienced and return to growth in key markets on the back of the rollouts of glo Hyper Pro device and Velo, our non-tobacco consumable. Vuse continues to lead in Europe, establishing itself as a premium brand that consumers can trust. And we are clear leaders in Modern Oral in Europe. We have performed strongly wherever we have launched, established Velo as a fantastic brand which consumers love.

The key thing to note here is that Modern Oral is the fastest-growing category in Europe and it is also where BAT is the strongest. New Categories, driven by our quality growth focus, have been game-changers of our business in Europe, as illustrated in this chart. New Categories growth has both enabled our European business to substantially over-deliver on our group medium-term revenue guidance, and it has enabled material increase in absolute category contribution on the back of scale and efficiencies. And as Soraya will show later today, this growth has led to significant improvements in gross profit across many key European markets over the past few years. We have now 18 markets in Europe where the revenue of our smokeless business accounts for 30% or more of total revenues. The European experience demonstrates the growth potential of our strategy when appropriate regulations are in place. Wherever we have a regulatory environment supporting a level playing field, the transformation is happening and is happening fast.

In summary, a balanced focus on top and bottom line is transforming our business in Europe with financial delivery, which will never be possible to replicate in the old combustibles model. So, you can see the New Categories have been a game-changer for the growth prospects of many of these European markets for BAT.

So, the next reason to believe in BAT's future is the U.S, which remains the cornerstone of our future. And as David will show later, one-third of the global nicotine value pool is located in the U.S. With the industry continue to grow at pace. Our successful transformation in Europe demonstrates our ability to effectively compete on a level regulatory playing field, which as Jeff will explain later, we are working hard to achieve in the U.S. And I'm confident that with the investments and work that we have now done, we will be able to capitalise on the significant U.S. market opportunity.

As you know, over the last 18 months we have focused on a back-to-basics approach in the U.S. to improve our performance. We have done the investment in executional capabilities, worked very hard on the culture and we've increased participation in the U.S. white space. Although there is still a lot of work to be done, we are beginning to see early signs of return on our previously planned investment U.S, as we move towards value creation. Our combustibles performance is improving in a challenging market. We

continue to be national leader in Vapour with Vuse, and we have invigorated our performance in Modern Oral with the relaunch of Velo.

Dave and Jeff will present in more detail our performance and plans in the U.S. later today. They will also explain our progress and challenge in engaging for greater illegal Vapour enforcement in the U.S. Close to 70% of the U.S. Vapour revenues are in illegal flavoured products, which means there is about a £6 billion market that BAT today is unable to address. BAT is actively supporting more effective tracking enforcement of illegal Vapour, and the variety of state governments have taken some action to identify, and to a lesser extent, enforce illegal Vapour restriction. Needless to say, that is both a huge opportunity for BAT, and an engagement challenge that is on the top of our priority list for government engagement globally. In summary, we have a fantastic business in the largest nicotine pool in the world with great untapped white-space opportunities.

And this leads me to my seventh reason to believe. In the U.S. and the rest of the world, effective regulation will be pivotal to ensure level playing fields and to allow consumers to migrate from combustibles to smokeless offers if they decide to continue using nicotine. Because of this, we have built the scientific capabilities to substantiate tobacco harm-reduction and have taken a more front-footed approach to stakeholder engagement. To be clear, we strongly believe the regulators should use tobacco harm reduction as the key strategy to pursue this objective. Regulators who do not engage in this area are seeing rapid growth of illegal products that will slow the pace of transformation that society needs. The recent Omni launch is an example of BAT's continued thought leadership in tobacco harm reduction and our ability to draw a clear pathway to build a smokeless future based on science and sensible regulation. In conclusion, we are pursuing a more proactive engagement with global regulators, with encouraging progress on regulatory change in some areas and we will continue to engage proactively in the future.

The eighth reason to believe is about the foundations we are building for the medium and long-term Beyond Nicotine. Our Beyond Nicotine portfolio is being developed in a measured way with early signs of success, leveraging our deep understanding of the adult consumer as well as our science, R&D and distribution capabilities. Our approach to ventures Beyond Nicotine is smart, is focused and efficient. We are not in a rush to embark at a large scale on this journey. And you'll see and hear about our approach in the exhibitions and lab tours later today. You also be introduced to Ryde on your table, basically, an adult, wellness, and stimulation shot product that has shown early signs of success in pilot markets in Australia, Canada, and the U.S. Beyond Ryde, we are also excited about the minority investments that we made through our venture vehicle, BTV, and direct investments to create a foundation in cannabis from which we can learn.

My ninth reason to believe is about BAT's global footprint, which provides resilience...resilience against economic cycles and geopolitical unrest, and our multi-

category focus and scale, which provides the agility to address shifts in consumer demands across New Categories. On top of this, there are incremental white space growth for areas, which we are investing and prioritising accordingly. As you can see from these shots, the white spaces are related to the US Modern Oral and currently illegal Vapour categories which together amounts to c.£80 billion revenue. The other white space on the premium positioning in Heated Products and Vapour, and key market unlocks such as Brazil and Turkey where we cannot today sell any of these products. Our ability to open up some of these opportunities plus our global footprint and our multi-category approach, adds up to a compelling and balanced medium-term algorithm delivering both earnings growth and shareholder returns.

In summary, we are targeting four to 6% operating profit growth from 2026. We'll be able to achieve this growth rate with zero to 2% combustibles growth, given strong growth opportunities that we have within New Categories. We are also increasing financial flexibility allowing BAT to balance between growth, margin, continued leveraging and shareholder returns. Soraya will give more details later in the session on BAT's growth algorithm which is quite unique and exciting given what I have just said.

The final and really important reason to believe, especially for me as a Chief Executive, is the truly inclusive culture, we have built in BAT with new outside talent brought into the company, living by BAT's core values every day in a collaborative, responsible and agile fashion. In short, we are transforming our culture and we have the talent to deliver. Cora will tell you more about this later.

So, we are looking forward to showing you throughout the day how change has been happening, that we are doing even more to transform it every day, and that we are clear on what needs to do to build an exciting future, and that we know what it means for our business and financial sustainability. We also showcase to you throughout the day the great people we have in this business. In the end it's the quality of our people that brings our strategy and plans to life.

And their passion for the business that makes the real difference in driving us towards a smokeless world. At this moment, I would like to thank them for bringing us to where we are today. I could not be more excited about the future. Please, come with us on that journey. I'll now hand over to Julian Prynne. I'm going to introduce Julian who will take you through the step change we have done in consumer insights and foresights. Thank you very much.

Julian Prynne, Global Head Consumer Insights Foresights

Thank you very much Tadeu, and good morning everyone. It's great to see you all here and to connect with those online. I've been head of Insights and Foresights here in BAT for the last 18 months. 27 years in the group in a mix of both insights, but also more generalist strategy and marketing director roles around the world. So, we start this quality growth section with consumer insights because the consumer is at the heart of our BAT strategy as you've just heard from Tadeu, and also because everything that we do in marketing and innovation starts with consumer insights.

And perhaps that sounds obvious and superfluous, but I can tell you having been here for a pretty long time, that is truer now than it's ever been before. Also, insights is a traditional strength of BAT that we've now rediscovered. And we've rediscovered it at a time when it's more valuable and beneficial than ever before, because of the speed of change in the multi-category environment. Above all, we've significantly enhanced our insights capabilities fuelled now by a decade of multi-category experience. We have a new insights team with better ways of working, modernised approaches and frameworks for taking insights into action.

We're now generating clearer, more actionable briefs for our R&D and category teams and we're seeing the benefits already in terms of better marketing and innovation outcomes... from the improved strength of our innovation pipeline, from better pre-test results and from the early performance of recent launches. So, to put simply, we really know our consumers, we've got a great heritage, and we've stepped up our capabilities, and this is giving us exciting opportunities. I'll now briefly explain how we're doing this and why it's so important and exciting.

So, BAT has always had consumer insights in its DNA. And it's always been linked to a philosophy of providing consumers with the best range of choices, and that's obviously more relevant now than it's ever been in the multi-category context. Previously, our cigarette insights powered our global drive brand portfolio strategy against a one-size-fits-all alternative, and that drove exceptionally strong results sustained over many years and continuing today. It did take us time to adjust and evolve our insights approach to the new world and we acknowledge that.

But now with a significant revamp from a decade of multi-category experience, we're now providing clear and exciting direction for our category and R&D teams. And that's in today's multi-category world is even more valuable and beneficial given the increased complexity and the greater opportunities to provide those wider ranges of choices. This blend of our strong heritage of insights enabling consumer choices, together now with our new category experience and revamped insights, is a powerful combination, and our multi-category approach is fundamental to this.

The multi-category perspective and experience gives far stronger consumer

understanding and this powers better outcomes and stronger results. Three examples of why our multi-category approach is important.

Firstly, different consumers in different markets and in different segments within markets have different needs and preferences, and that's best met through different categories and offers. And understanding this holistically allows us to develop and target the right offers to the right people at the right places.

Secondly, growing poly use requires a holistic understanding of consumer needs in different moments and a portfolio of products and categories to meet them, not possible through a single category focus.

And thirdly, we're finding that insights that we identify in single New Categories have relevance beyond to the other New Categories as well. A few examples include the evolution of flavour preferences that we identified first in Vapour that we see having relevance to all of the New Categories in different ways.

Similarly, we identified an insight around how consumer needs and preferences evolve with time in category year by year, first identified in Modern Oral, relevant in all the New Categories in different ways again. Also, the opportunity of increasing the tobacco harm reduction awareness and understanding to increase smoker conversion is critical across categories. And the importance of protecting simplicity and ease of use in the context of technological advancements...extremely important. Now we've got better at integrating these insights and giving us huge synergies from our multi-category strategy and this gives us deeper, more actionable insights, which in turn power better performance and marketing outcomes.

And we've adapted our insights approaches to better reflect and benefit from this. Firstly, we modernised our base insights tools. Now these are obviously not new or unique. What's new is the way we do them and the way we use them, all enhanced to better reflect the multi-category poly use context, and also exploiting AI and digital for faster, more powerful and cost-effective insights. Three examples.

Firstly, segmentation. Always been a key tool, notably 20 years ago powering the global drive brand cigarette portfolio strategy, but now it's better encapsulating cross-category, poly usage and the resulting drivers of choice.

It's also better connected to consumer moments and better able to project into the future. And this enables us, for example, to both grow depth of usage among new category consumers in modern segments where they're already widely using New Categories, and at the same time to understand the needs in more traditional segments to overcome the barriers to new category adoption while meanwhile importantly,

maximising our value of cigarettes.

Secondly, consumer labs. These are long-term consumer panels that enable direct authentic consumer engagement as a valuable complement to traditional and digital data tracking.

Again, not unique or completely new, but globally integrated and digitally connected now, and this enables us to do consumer co-creation and early-stage evaluation of innovations to enable better consumer relevance from the very start of the innovation process and to flag early signals of problems and potential benefits going forward. It also enables tracking of consumption behaviour over time as consumers make the journey from solus cigarette usage, often initially to poly use and eventually into solus new category use.

Thirdly, digital track. Digital track has been a step change for us in the last 18 months in our digital insights incorporating integrated online, search, social media and reviews. Now globally integrated across 15 markets and across New Categories powered by AI which, for example, helps us to identify themes and to understand sentiment to make sense of powerful, what otherwise would be an overwhelming amount of data. For example, in first 12 months we've seen half a million searches, three-quarters of a million social posts and 120,000 reviews about New Categories by consumers just in the initial 10 markets that we deployed in.

Being continuous and unstructured this gives us faster insights into, firstly emerging trends, secondly, product innovation needs, delighters and pain points, and thirdly, fast post-launch tracking and competitor intelligence. Digital track enables us to provide our R&D and marketing teams with direct access to authentic consumer content in real time, a game changer for us in terms of consumer centricity and speed. These modernised insights tools give us a better base for more actionable cross-category insights and they feed into new action-oriented insights frameworks. And I'll show two examples of these now starting with demand moments.

So, demand moments is a build on occasions and moments which we've been using for many years like many other companies, in our case for about 15 years. But that became much, much more important in the poly use context and we needed something more actionable. So, the new demand moments framework goes beyond occasions to really uncover preferences, opportunities, behaviours and context for deeper understanding of the why behind the moments of consumption across nicotine categories. It enables clear briefs for category and R&D teams, for both product and also communications development. In short, demand moments brings us a better understanding of poly usage and brings more depth and actionability to occasions. And I'll now play a short video to explain this concept.

[pause – video plays]

Julian Prynne, Global Head Consumer Insights Foresights

We know the relative size and fit for each of these demand moments, for each category and brand, and the consumer preferences for each. And we also now have a better understanding of consumer journeys where some demand moments act as new category gateways typically a rediscovery of moments that were lost to cigarettes, while others are more entrenched cigarette heartlands where we've got more work to do to encourage new category adoption.

Actionability comes from understanding the product requirements met and unmet in each demand moment which feeds into R&D directly for product development, as well as also from a library of consumer generated digital content that provides actionable stimulus for creative development and consumer engagement. I'll now play another short video to show you some examples of some real consumers describing their demand moments experiences.

[pause – video plays]

Julian Prynne, Global Head Consumer Insights Foresights

So, demand moments have given us a load of insights and learnings. Few examples. For example, how high-level requirements for things like convenience translate subtly differently from one moment to another and we can action that directly. Secondly, how one demand moment seems to be the key for unlocking the whole. And thirdly, a mismatch between the typical thinking and communication of some demand moments compared to the consumer reality based on their digital postings.

Actioning insights from demand moments enables us to improve both our new category user acquisition as well as our share of new category users' daily consumption moments. And that's an equally important driver of volume and value growth. Demand moments also leads to the second action framework, which is our new horizon innovation spaces. This gives more direction and focus to our new category innovation pipeline against six priority opportunity spaces based on forward-looking insights and foresights. It enables us to better think ahead and get ahead.

Critically important for us, given the speed of change in New Categories. They were produced by integrating multiple insights sources, including a greater focus on X category consumer trends, future projections across nicotine categories and also early signals from our digital track that I just talked about, and our new Shenzhen-based insights team. One of the spaces deals, among other things, with a consumer desire identified across New Categories to adjust consumption experiences, making them personalised for the individual and customised adjusting for different moments.

And you'll hear this referred to later. The spaces were elaborated and linked to demand moments segmentation into detailed R&D briefs, and these were produced together through collaboration with our category colleagues and via consumer co-labs with co-creation as I described earlier. We're already seeing improved results from this consumer-centric approach. With multiple innovation projects across categories, improved pre-test results, earlier identification of potential and of required improvements, and positive early results from recent launches that will be described later.

I'll now show you some high-level examples of insights feeding into specific innovation developments. The first example is a Vuse innovation with very positive pretest results. Examples of high-level insights that fed into this development include an unmet need identified for premium sophistication in vaping, with specific guidance for both design and features, opportunities and directions for how to significantly enhance taste and flavour sensation experiences, how to address consumer usage anxiety and the associated strong appeal of informative user-friendly screens.

Also, a desire for customisation by moment and concerns about environmental impacts and underage use. These insights and others obviously with further details were actioned into design, and that's led to very strong pre-test results, which Luciano will talk more about later.

The next example is a recent launch, Glo Pro, which was recently launched with very strong early results in market. High-level insights from this include consumer needs for more taste satisfaction and immediacy for more cigarette like sensorial, for more discretion and style for better device appeal and for customisation for different demand moments.

Also, the appeal of informative screens to improve ease of use in various ways and the need to address device cleaning as a consumer pain point. All these and other more granular insights were actioned by the team into the successful launch, which Luciano will talk about. And a final example is Velo, where we've had multiple new developments which were all fed by insights. It includes various insights into how new Modern Oral users struggle with new rituals and intense sensorial experiences.

How taste familiarity is key for consumer acquisition and how that differs depending on which category people are coming from, and how more experienced users seek more choice in flavours and higher sensation in specific ways, and a general need for more differentiation and standout as well as more responsible offers in this category. Again, all actioned in various ways and incorporated into Velo's pipeline which Luciano will talk about and you'll see examples of later. So, to bring this to life, a final short video showing you real consumers feeding back to us on real products at various stages of development.

[pause – video plays]

Julian Prynne, Global Head Consumer Insights Foresights

We now have a new insights team with a new way of working and a fully reintegrated global insights community with deep cross-functional collaboration. Our now more dynamic culture is oriented around the delivery of fast forward-looking output driven by a spirit of continuous improvement and the humility to lean into what we don't yet know. The insight team is again now aspirational, attracting the best talents from across the business and beyond. And it's all underpinned by one, common sense. Not everything requires multiple revalidations and data points and decimal places for faster decisions.

Two, the importance of seeing things in their wider context. For example, generational change and X category consumer trends. And three, the pursuit of ever greater simplicity and actionability because it's all outcome focused for commercial impact.

So, wrapping up, as you've heard, we've significantly enhanced our insights capabilities fuelled by a decade now of multi-category experience. We're happy with the progress and this will continue because insights by definition has to be about continuous learning and improvement. We now have better, deeper, faster consumer understanding, directly feeding into better briefs for R&D and category teams.

And we're already seeing the impact and the benefits. Firstly, the improved strength of our innovation pipeline, secondly, exciting improvements in pre-test results and thirdly, better early performance of recent launches. All things you'll hear more about in the rest of today because it's all outcome obsessed. Better, faster insights for better products, for better commercial results. And as one of the key recipients of our insights, Zafar, will now explain how we are accelerating our R&D innovation delivery.

Zafar Khan, Group Operations Director

Good morning and a very warm welcome to our Southampton Innovation Centre. I am Zafar Khan with over 28 years of professional experience in BAT. I've worked at local, regional, and global levels in operations, commercial and R&D roles. It is absolutely my pleasure to be here with you today. Tadeu shared our, A Better Tomorrow vision and I will share how we, in the New Categories R&D, support it with our innovation-obsessed mindset. To achieve this, we have transformed the entire innovation ecosystem now composed of strategic, development and open innovation partners.

The ecosystem is orchestrated by technical centres of excellence, deliberately located based on access to the best knowledge and talent. This has allowed us to step-change our product portfolio in the market with compelling product offers designed around consumers' needs. It is also enabling a winning innovation pipeline across all our New Categories. At the very onset of our transformation journey, we clearly identified three opportunity areas where we would need to step up.

One, we were very inward-focused and weren't fully connected to the external innovation networks. Two, our internal organisation needed an upgrade in size, technical skills and organisational accountability. And three, we were siloed by category with limited cross-category sharing, and in many cases duplicating efforts. These became our priorities to fix.

Now along with our strategic suppliers, we are investing over £700 million this year in smokeless innovation. This is two times our previous levels and a serious commitment from both us and our strategic partners. Benchmarking across industries tells us this is at the highest level across the comparable landscape, considering a relatively low maturity of the market category. As the space matures, over the coming years, we expect to land somewhere in between CPG and tech companies. The suppliers investing almost as much as us to augment BAT innovation is truly unique to us.

Tadeu shared this slide. I'll explain it in a little more detail. Just six years ago, we started with one innovation centre in Southampton and two small manufacturers in China. We now have transformed into three innovation centres fully upgraded. Today, we are here in our brand-new Southampton Innovation Centre. We have two strategic partners, and in addition, 50 plus development partners for products, materials, technologies, and services. Our open innovation partners include specialised venture capital firms, startups, and universities. And we have two fast moving, our first moving manufacturing sites, where we validate the processes and technologies. And once again, as Tadeu emphasised, we took a multi-pronged approach.

Our global reach and proximity to the network in Asia makes us truly unique versus competition. I will now introduce our two strategic partners.

BYD is one of the most advanced technology companies in the world. They're the biggest EV company in the world, with true excellence in batteries. They're also a huge player in the consumer electronics space, high-tech components, material sciences, finishing, and power management. Smoore, our other strategic partner, is the number one player in aerosol generation technology. They have excellence in automation and have also expanded into heating products. They have been making very, very strong investments into R&D across new technologies with a proven track record on innovation. Both these suppliers have big global footprints as we speak.

We now have access to the cumulative strengths of both these two strategic technology powerhouses and 50-plus development partners. This gives us unique preferential status on certain technology and projects. At the same time, within BAT, we have a hundred plus years of in-depth knowledge and experience on consumables, blending, liquids, and flavours. On top, we are overlaying our science and harm reduction ambition. Putting both these capabilities together has resulted in a very advanced ecosystem. In fact, we've now taken this to the next level with joint co-located teams at each other's premises. This is giving us a strong competitive edge in the industry. We will now watch a video showing our ecosystem with BYD and Smoore.

[pause – video plays]

Zafar Khan, Group Operations Director

Now, to orchestrate this unique ecosystem, we've had a step change in our internal capabilities. We doubled our resources with over 250 new members recruited from the best tech industries. Listed are some of the industries they've come from. Within the last year, we redeployed the teams with almost half our R&D members changing their roles or locations. This is absolutely unprecedented for us. The teams have reorganised under tech centres of excellence. For example, materials, hardware, software, active substrates, flavours, etcetera. You will see some of these labs during the tours today. And the IP insights and foresights and science teams have been strengthened and fully integrated across all our sites. This has been a massive game changer.

We now have one innovation centre across multiple locations, with cutting edge technical expertise. Now, Julian brilliantly explained the consumer insights and foresights capabilities we have in place, transforming consumer needs into real products that our consumers can touch, experience, and be delighted with. The consumer opportunity spaces are at the start of our innovation cycle. Through cross-functional ideation sessions by category, during the development stage, we use internal and outside-in ideation cycles with the entire ecosystem on a very regular drumbeat frequency. This enables a robust technology roadmap that eventually translates into the product pipeline. What makes the outcome unique is the ability to share our multi-category learnings across categories. This gives us macro trends to enable a medium to longer-term pipeline and enables us to access open innovation networks for ideas and solutions.

Now, for a controlled and predictable innovations delivery, a strong product lifecycle management process is at its very foundation. And we therefore redefine the complete end-to-end process from define with Julian and the commercial category teams own, going through discover, develop, deploy, and then, all the way to delist at the end of the product's life. The focus for each stage, as you can see, is clearly identified. Ownership and cadence of the processes is at the top level of the organisation, with metrics categorised under sufficiency, efficiency, and speed. Testing and deployment is carefully planned through pilot launches, with a fail-fast approach embedded in the process. Synchronisation across categories, through our rhythm of innovation, enables optimal prioritisation, resource allocation, and responsiveness in our global rollouts. Through our synchronised multi-category approach, we are able to focus on fewer, bigger, and better rollouts globally.

At the same time, we see IP as a competitive edge. Our enhanced focus internally, complemented by preferential access to the supplier-patent portfolio, have made our all-around position much more robust. We continuously measure our IP portfolio asset value versus competition to remain ahead. As an outcome of the entire process, we now have a portfolio of 200-plus innovations in our pipeline, a four-times increase versus 2022. This is the menu card of technology blocks we have in our arsenal across the categories. From this technology menu card, these are just some of our significant breakthrough technology blocks we have already launched in key consumer opportunity territories across all categories. Discover, technology enhancements for better control and user interface, consumable improvements for better satisfaction and flavour territories, including natural non-tobacco substrates, and our approach to underage access prevention and enhancements, like battery removability, to manage environmental concerns. We are very proud of the step change on our in-market products across the three categories.

In HP, glo has achieved our best-ever consumer test results with our Hyper Pro device. It has the best user interface through the screen, a first in the category. We have the best non-tobacco consumable range in the market. In Vapour, Vuse occupies the most advanced and premium space in the rechargeable segment, thanks to our best-in-class aerosol generation heating system. And in Modern Oral, Velo has the broadest and the most stable flavour portfolio in the category. So it is, once again, our unique end-to-end ecosystem that has enabled us to achieve these, which Luciano will share in more detail. As Tadeu shared at the very onset, we have dramatically improved our capabilities.

Now, I will go for a complete recap of our compelling global innovation ecosystem. Our strategic-supplier relationships have been a true game-changer. It has put us in a very competitive position, through commitment to hard investments, specialised technical skills in our joint development projects.

We have had a significant step-up in our end-to-end internal capabilities, including our

infrastructure, people, and processes. And our comprehensive multi-category presence is giving us a huge leverage, from insights all the way to deployment and technology options to choose from. Translating these into hard numbers, our offering becomes even more compelling, doubling our innovation spend and in-house technical skills, a massive uplift in our collective patent portfolio. In 2024, we will be launching 50 projects, which is over two times our best ever year. And our ready technology block strength has quadrupled to 200 plus. It is these that give us the confidence and the readiness to deliver our vision of a better tomorrow.

Thank you very much.

It is now time for a quick coffee break, so please do feel free to have some refreshments, which are available at the far end of the room. I also invite you to visit the Omni stand to hear about BAT's evidence-based resource on tobacco harm reduction. And also, please visit the Ryde: stand to hear about and sample our new innovative shots brand. These stands will be open throughout the day, and we will restart presentations at 10:35am.

Thank you very much.

Luciano Comin, Chief Marketing Officer

Good morning everyone. I was planning to start by talking about football today, as my team, Argentina, won 6-0 yesterday. But given that my boss is Brazilian, I will skip that box.

My name is Luciano Comin, and I'm the Chief Marketing Officer. Welcome back to the plenary session. So prior to the break, Julian and Zafar have shared with us our differentiated approach to our transformation journey. I am very confident that we have a bright future ahead of us, with better insights and foresights, as Julian presented, with a new R&D setup and with our fantastic brands and products that I will present. We are very well positioned to drive quality growth and deliver our vision of a smokeless world. I will use the next 30 minutes to give you an update on our New Categories, and then, Vincent will share our plans on combustibles. When we started our transformation journey to our smokeless world back in 2017, it was very clear to us that there will not be a single solution to convince smokers to switch out of cigarettes.

It was clear that we will need to explore multiple avenues to respond to the different consumer expectations, different regulations, and different market realities. And this intuition has proven to be right. This is why I am convinced that our multi-category approach, though clearly more demanding, it is the right one. It is a winning one. Today, I will provide you with an update on the three equally important categories. Vapour, our largest and growing category, where Vuse is the global leader, and we have significant untapped premium potential. Heated Products, also significant, in terms of revenue, with the value segment growing fast. But where the premium segment, it is by far the biggest growth opportunity. And Modern Oral, which is, and I believe it will continue to be the fastest growing category. Velo is growing and the market leader in Europe and we have an encouraging momentum in the U.S.

So let me start with the Vapour category. The Vapour category is critical in our transformation agenda. It is the biggest category and continues to grow. It is clearly not stable and still subject to some disruptions and regulatory challenges. And it is still not yet a level playing field, but it's a category that we are very confident about. Let me share a few facts about the category. First, vaping is, and we believe it will continue to be, the biggest category, in terms of number of consumers, achieving an estimate of 110 million users by 2030. Second, vaping is as good, if not better, than Heated Products in converting smokers out of cigarettes. You can see on the blue box in that chart the percentage of active users, both for Vapour and Heated Products, who stop smoking on a daily basis. Third, rechargeable closed systems is back to growth. So, after two or three years of exponential growth of disposables, that trend has changed, and now, close systems are back on growth.

Four, regulation and enforcement are key to unlock the potential of this category. Today, there is around £8 billion of revenue that is not accessible to us, all that as a consequence of inappropriate regulation and all lack of enforcement. Five, in this category, it's critical to build trust. Today, 60% of the smokers believe that vaping is as bad, if not worse, than smoking. So, we believe in the importance of informed choices, and that is essential for regulators and public health to educate consumers about the relative risk of vaping, compared with smoking. And finally, we think that is a big premium opportunity within this category. Today, only 3% of this category is premium, very different from most FMCGs. And we believe, based on the profile of the vaping consumers, that the premium opportunity should be at least 30% of this category.

So all these dynamics makes Vapour a cornerstone of the transformation out of cigarettes and reinforces the need for more regulation in this still chaotic category. We have an opportunity to help shape regulation in the right way. So let me now focus on our brand, Vuse. Vuse has been in the market for more than 10 years, and over this time, we learn about the category, and we learn about the consumers. And it is 10 years where we have been growing at a CAGR of 86%, in terms of volume. We already have a track record of success, but we cannot stand still. And we are very clear of what we need to double down to expand our leadership.

Our brand, Vuse, is based on three pillars. We want to build a strong and powerful brand that our consumers will love. We want to lead and own trust. As I already explained, how crucial brand trust is in this category. And we want to build a profitable brand, crafting and owning a non-existing premium segment. Vuse is the leading brand in this category, with more than 40% share of market, globally, within the measured universe. And Vuse is even stronger if we focus on rechargeable closed systems. And given that closed systems are growing, this should play in our advantage. Finally, when consumers talked about Vuse's key strength, they will mention modernity, high quality, premiumness, and trust. And talking about trust, we want to continue leading this category by innovating responsibly, not only in the way we communicate our brand, but also in the way we manufacture our products and in the performance standards that underlie our products.

And that is why we can claim 99% less toxicants than cigarettes in all our products. Now, not all vapes can say the same. All our flavours and descriptors are targeted to adults. We have accidental access prevention in all our devices. We have age-verified connected platform in all our premium devices, in markets where regulations permit, and we are committed to have removable battery in all our closed systems by the end of 2025. Not all vapes can say the same.

To be competitive, we need to provide our consumers with a range of products. We are currently focusing on three pillars, disposables, position as a convenient, potentially reduced risk alternative to switch smokers, rechargeable closed systems to enhance brand equity, and a differentiated and connected device to build our premium

positioning. These products will all share the same technology, our new ceramic heater. And all the e-liquids will be produced in the US, and though we're going to be able to claim 99% less toxicants than cigarettes.

First, let me talk about Vuse Go, our product for the disposable segment. Our latest launch, Vuse Go 2.0 was introduced in May of this year. And based on consumer research, it is substantially better than our previous products, Vuse Go 1.0, and better than our closest competitor. It has already been introduced in 24 markets. And we will continue to roll it out during the rest of the year. And as you can see on the chart, it is already gaining share in all our key markets. Then Vuse Go Reload, our new simple rechargeable system, with a new device and new pods introduced in June of this year. This product is now in 18 markets, and we will continue to roll it out until the end of the year. Again, you can see some of the results in the chart below.

With regards to our premium product, we are introducing a brand-new device called Vuse Ultra. Vuse Ultra will be our initial step in offering consumers premium and super premium vaping products. Vuse Ultra is a new vaping solution that reaches the next level in terms of performance. And as Julian has explained, this product was designed based on our consumer insights and developed by our innovation ecosystem. Vuse Ultra exemplifies what we believe that we can offer vaping consumers, a responsible, high quality, high satisfaction solution for discerning Vapours. As you can understand, this product is still not in the market. I can't reveal more details.

All the above mentioned will contribute to improve the value creation. And the journey has already started. Vuse's cross margin to revenue ratio is improving. In 2023, our ratio was 51%, coming from 25% in 2021, and it has already improved to 60% in the first half of this year. We are focusing our efforts, and 85% of all our investments in vaping goes into the top 20 markets and the number of profitable markets among our top 20 markets. We have 10 in 2023, and we are expecting to have something between 13 and 14 markets profitable among our top 20 this year. In summary, we are confident that Vuse is on a great quality growth journey. Vapour is the largest category and growing. Vuse is the global brand leader. We think we have a winning portfolio, and we have an untapped premium potential. And with Vuse as a leader, we see Vapour being critical pillar of our transformation to a Smokeless World.

Let me now move to the next category, Heated Products, an important category to support the transition of adult smokers away from cigarettes. A category more mature than Vapour, may be more limited terms of its long-term potential, but a category where we still, at BAT, have opportunities to significantly improve how we position. Let me start with some facts about the category. First, heating products is the biggest category in terms of revenue. We expect the category to achieve £10 billion by the end of this year. Second, 80% of the category revenue is concentrated in just nine markets. All of them develop markets. This category, different from Vaping and Modern Oral, has not been successful so far to penetrate the developing world. Third, the category growth has been

slowing down, mostly as a consequence of more Heated Product consumers poly-using across New Categories, both with Vaping and Modern Oral. And finally, 80% of the category revenue is in the premium segment where BAT share is relatively small.

We have started our glo journey back in 2016, and despite many constraints, we are, today, the second biggest brand in the category and the leaders in the affordable segment. Now, it is not a secret that we are not where we would like to be and that we have some challenges in the past. Also, it is true that we haven't been able to develop a product capable to compete effectively in the premium segment, but that is about to change. We are very clear on where to focus going forward. We need to build a robust innovation and product pipeline and improve the performance of our products. We have to continue to lead in the affordable segment. All the competitors in this category, including the market leader, are playing in this segment. And the segment is growing. We have to make sure that we continue to be the leaders in this segment, and we need to be able to compete in the premium segment.

Not only is, by far, the biggest segment today, we also believe it will continue to be the biggest segment by 2030. So as a consequence of that, we are focusing now on two different platforms, Hyper, our historical platform, and the one we will use to keep leading the affordable segment, and what is new. After many years of work and consumer insights, together with our new innovation ecosystem, we are going to introduce a breakthrough innovation technology to compete and to win in the premium segment. Let me start with Hyper platform and to share with you our latest and exciting launch of Hyper Pro. Hyper Pro was launched during the first quarter of this year, and it is, by far, our best performing product. Let me start by showing you a video. Let's run the video please.

[pause – video plays]

Luciano Comin, Chief Marketing Officer

Hyper Pro has been the first step of our redefinition of glo-Heated Product experience. Hyper Pro is packed with a lot of critical innovations and displays the first outcomes of our improved capabilities. The development of this product was based on consumer insights and the understanding of pain points, as Julian presented, explained during his presentation. And although it's still early days, we are already seeing some encouraging news. Hyper Pro is attracting more premium adult consumers into our franchise, we see increased consumption in all our key markets versus our old devices, and we have a better brand retention, and we see the first signs of share growth. Again, still early days, but it's always good to see initial positive signs in all our key glo markets. But as I mentioned, we want to compete in the premium segment. This is where the biggest opportunities. So, we are going to be introducing a new premium glo platform in one market before the end of this year. So, we say hello to glo Hilo. glo Hilo is a breakthrough new system that will reshape the way glo competes in the Heated Products. We will have a one-piece device and for the first time a two-piece device. And as I mentioned,

we will do a first launch during this year and then roll out in some key markets in 2025. Today is just a teaser. I know you want to know more, and I would love to tell you more. Actually, just for you to know, it took me two weeks to convince my lawyers to put that picture there, so bear with me, but the product is still not in the market and as you can understand, I cannot reveal more details.

Having said that, some consumers have the chance to discover and use glo Hilo and here is some of the things they told us. Consumers are excited with the offer in hand. They recognise some of the special features and they appreciate the technology and the premiumness. So, glo is ready for another step change during 2025, and we are all very excited about it. So, in summary, heating product is the biggest category in terms of revenue today. The value segment is growing fast, yet the premium remains the biggest opportunity. Hyper Pro is showing positive signs and in 2025 we will introduce glo Hilo, our first premium platform.

Last but clearly not least, Modern Oral or nicotine pouches. The most recent but maybe the most promising and exciting of the three categories. For sure, a category that will be a cornerstone of the transformation to a smokeless future. Let me start with a few facts about the category.

First, Modern Oral is the fastest growing category by far growing between 2022 and 2024 at a rate of 31% in terms of users and much faster than the other two categories. Second, it is already reaching global scale. We expect this category to be of a similar size in terms of revenue of the other two by 2030. Third, as Tadeu mentioned, this category is very profitable, and margin are accretive versus combustibles. And finally, there are many markets out there, especially in the developing world where the category is not present and we believe that with proper regulation we can accelerate this growth even further.

BAT has actually been the driving force behind the initial expansion of this category outside of the Nordics and BAT has been instrumental in shaping the category the way it is today. So, we are acquired a small business in Sweden back in 2017. And a year later in 2018, Velo was only in three markets with a revenue of £47 million. Only four years after that, Velo has already presence in 34 markets delivering a revenue of more than half a billion pounds. This year we are already in 44 markets and our revenue continues to grow. With Velo, we have a very clear ambition. We want to lead this category globally and we will focus on three pillars, keep building our brand, keep developing our product and innovation pipeline and making sure that we have a portfolio to win in the US, by far the biggest market. And at the same time, we will keep rolling out our brand in the rest of the world. So, let's take a minute to see what Velo is about. Let's play the video please.

Velo is a wonderful brand. The team have done a great job building a massive asset for the growth in Modern Oral space. We have built a very distinctive brand with our weirdly wonderful positioning, while building and educating consumers on the key category

benefits. Velo has the strongest brand equity within the category being the market leader in terms of brand strength in all the markets outside of the U.S. In the U.S., there is still some work to be done, but it is the biggest opportunity.

And supporting the brand. It is a unique portfolio of products tailored to offer more than oral solutions for new switchers and experienced users. We have a range of new markets without oral experience with a range of more than 30 flavours in two nicotine levels, four milligrams, and six milligrams. And we have a portfolio of more than 40 flavours across all the nicotine levels from four milligrams to 17 milligrams and over 80% of all our products has been evaluated by consumers on par or superior versus our closest competitor.

We believe that we have the best brand and the best product in this category, but we see ways to further improve and expand our ranges for the benefit of the category and BAT. We are now working on technologies for flavour stabilisation. We are about to introduce in a test market a premium Velo range with a differentiated cCan and a differentiated pPouch both protected by IP and we are also exploring the moderation territory with zero nicotine and other alternative as just two examples. With all this, we have successfully achieved clear global market leadership with Velo with an impressive 65% market share outside of the US and growing. In the U.S., there is a positive share momentum with the refresh Velo mix. Velo in the U.S. now has achieved 7.5% market share. And more than 16% share of market in New York where we first introduced this new mix.

As you may know, U.S. Velo product is not the superior product that we have in Europe. We await the outcome of the PMTA for this superior Velo product that we have filed two years ago and will remain confident in this product and the science underpinning this PMTA. If we have managed to achieve global leadership with this product internationally, we don't see why the US will be any different.

As we are waiting for the FDA authorisation for our global product, we are going to introduce at the end of this year a new product in our Velo portfolio in the U.S., Velo Plus. Velo Plus is a more competitive product with a wide range of flavours and nicotine levels, and it will be live in the U.S. before the end of this year. David later will expand on this.

Finally, and with regards to our global expansion, we are today in 44 markets as I mentioned earlier, and we are planning to introduce Velo in another 10 markets next year, but after that, they will still have 36% of our combustible volume base still to cover. In summary, Modern Oral is and will continue to be the fastest growing category. Today, we are clear market leaders outside of the U.S. and growing share in a growing category. We have a winning global mix with what I believe is the best product and the best brand out there and we are bringing the European learnings to the US, and we have an encouraging growth momentum and much more to come. And that concludes this brief update on our plans in New Categories. I will invite you to visit our category stands



where you will be able to see and experience our products and to exchange your views with our team of experts. As I said at the beginning, I am very confident that we have a bright future ahead of us. Now I will hand over to Vincent to talk about our plans in combustibles. Thank you.



Vincent Duhem, Global Head of Combustibles

Thanks a lot, Luciano. Good morning everyone. So, I'm Vincent Duhem. I'm the Global Head of Combustibles and I'm very, very happy to be here today. So, as you've seen from my colleagues this morning, our transformation to a smokeless world will spare absolutely no effort, but some consumers are still making the decision to smoke, and we will continue to serve these consumers. We will continue to compete in the combustibles category. And by doing so, we will generate the resources required to fund the transformation.

So today I'd like to demonstrate the resilience of our combustibles category. Our combustibles business is performing well and gaining volume share. And more important, the value creation algorithm works as stated earlier today and will continue to work. All this is made possible by a broad set of capabilities. Our portfolio of brands diverse and balanced across price tiers. Our commercial setup, one of the strongest in FMCG, allowing us to reach a very large number of customers and adult consumers around the globe. Our product and manufacturing expertise, we are very clear on the opportunities both in terms of consumer trends and in terms of geographies and we are consistently reviewing the way we invest, and we will continue extracting operational efficiencies as we've done in the past years. So, in a few words, we believe that we have a clear path to create value well into the future. So, I would like to double click and I will start with our combustible algorithm.

I think we can definitely rely on a strong foundation to build on. Our 2023 organic revenue is strong at £22.4 billion with very positive dynamics in AME and AP regions. Compensating for some of the investments that we've been doing in US. If we look back, despite disruptions, we've been delivering consistent revenue growth as plus 1.3% CAGR over the last three years and even a very robust plus 3.8% outside of us. Critically, the core value equation of our combustible engine is very solid. We have a price mix delivery which has been consistently ahead of the volume decline. Behind this equation, we have the strength of our portfolio. These assets span across all price points, and they provide us with a unique ability to respond to various consumer dynamics. And the rejuvenation work done in the last three years on the portfolio is already translating into volume share growth.

So, in short, we do have a very resilient value algorithm, and we will ensure its sustainability for the years to come. Now behind these performances, our capabilities build over more than a century that give BAT some critical position to sustain the combustible delivery. BAT is today one of the most effective and efficient FMCG companies in the world when it comes to reaching customers and adult consumers at the very large scale. With more than 12 million outlets delivered and more than a hundred million consumers served every day, BAT has one of the largest reaches of the FMCG world.

On the product side as well, we can lean on an incredible expertise both in terms of

development and manufacturing of combustible products across the world. Our community of farmers and product experts is a massive asset to consolidate our strength in the category. And I should highlight that this expertise and this vertical integration are key enablers when it comes to the visibility and the control over our costs and over our sustainability ambitions. And besides, I'm sure you will appreciate that these capabilities are also solid foundation for our transformation in your categories.

Now to continue delivering in the context of an industry with expected volume decline, focusing where it matters is key. Julian earlier did share some of the tools we use to understand our consumers. Understanding these dynamics is paramount because the combustible category is still fluid. A third of adult smokers smoke more than one cigarette variant and 16% of all smokers every single year change their cigarette of choice. These are as many opportunities to compete. So where do consumer go? We see three main destinations. The first one is to a lower price offer driven by a search of a better value for money. The second is on the contrary and importantly towards a premium offer in a search for brands or products offering different experience. The third is a choice of a flavoured cigarette.

Now, focus is also about where to put the resources and the energy in which market to deliver the value we expect. And for that we use a market archetype classification that guides our level of investment and activities, especially within the top 15 markets that represent roughly 80% of our revenue today. With this knowledge of the combustible dynamics, we are not only ready to extract the value from combustible, but also to drive the transition of our smokers to New Categories.

Now if we look forward, we are confident that we have clear opportunities to continue delivering sustainable value from combustibles. With our brands, we have strong assets. They are designed to respond to consumer preferences and they're kept relevant and up to date. Over the years, we have also learned how to stretch these assets up and down the price ladder to follow consumer choices. And importantly, we design responsibly propositions that response to the regulatory evolutions. We will continue sharpening the way we invest using our market archetype methodology to optimise the resources and we will keep on looking for all opportunities to further streamline the portfolio and to drive productivity initiatives across all products and all factories. The algorithm is very well understood and we are on track to sustain its delivery moving forward. As I mentioned at the core of the value algorithm are the brands and product that we refer to consumers. I would like to share a brief video update on the portfolio.

So BAT's strength in combustibles is largely the function of our portfolio of brands and this portfolio is very unique. We have eight focused brands out of which three are US brands that represent roughly 80% of the combustibles revenue. And we have also some local brands still very sizable that we drive more locally or regionally. The diversity of our brands is a chance. It gives us a unique ability to respond to more and more demanding adult smokers, but also to cover all price points and all segments. So, I'd like to focus on

some of the most recent initiatives.

First, Lucky Strike. This is the fastest growing global BAT brand. Lucky has successfully expanded in the flavour space as you know, and we've reached a leading position in many markets in these segments. But Lucky is also one of the most iconic tobacco brands and a real reference when it comes to authenticity and tobacco expertise. Kent is our global innovation brands for decades now, and Kent is pursuing its journey to develop new formats and to stretch its offers into premium price points. Or as you can see here, into more affordable propositions.

Dunhill is the true premium tobacco brand. It's a brand that has been the symbol of quality and refinement for more than a century, and it's a key contributor to the value creation. We will continue to demonstrate Dunhill excellence in tobacco. And Opus, the super-premium offer that you can see here on the screen I think is a great illustration of this ambition.

Pall Mall is our largest brand in volume terms, and it has a very important role to play in our portfolio to serve the smokers that are looking for great value for money. Pall Mall is a brand that is committed to deliver the best smoke at the best price. And Pall Mall Select, our new line, I think exemplifies these commitments.

Last but not least, Rothmans, it's a successful brand with a very strong footprint in the AME region. Rothmans is offering to consumers the sophistication of a brand with a very rich past at an affordable price. And Rothmans will continue building its strong legacy, exploring new avenues to create value with offers like the one you can see here on the screen with Rothmans Nano in U.S. as well, we do have very strong brand to compete with.

Newport, the largest brand in terms of value for BAT is defending its very strong position with a successful expression in soft pack.

With Camel, we continue exploring the world of tobacco with a new black series range, offering a new more premium Camel experience to discerning consumers.

And Natural American Spirits, the most premium of our offers in U.S. We'll continue deploying its authentic tobacco expressions and in particular with expansion of the successful organic tobacco variants. Now, importantly as well for U.S. and David will talk a bit more about it, we make sure that our portfolio is fit for all potential regulatory changes in the future.

Now, as I mentioned earlier, the strength of the portfolio goes beyond our focus brands. We can lean on very strong local icons, be it locally or regionally, and which have the benefit of having very deep local roots that resonates with local consumers. Nevertheless, while we respect these local roots, we power these brands with all the expertise in terms of product or brand management that we've developed with global brands. And on the screen you see the example of three successful local brands – Derby,

Capstan and Shots that have been combining their strong regional heritage with the know-how and the learnings accumulated with Panama. And by doing so, we optimise the assets and the local and the global strength.

The strategy is already successfully in motion in our region and I wanted to pick two markets today to illustrate, Brazil first. Brazil has gone through a complete portfolio transformation coming from a collection of aging local brands and turning it into a range of four very strong brands, fully updated and now with the relevant innovation for Brazilian consumers. With this transformation and after a hundred years of existence, the Brazilian portfolio is fully reinvented and continues to deliver growth in terms of market share volume revenue.

In Romania as well, our brands keep on improving their competitiveness. It's a great example on how to win with our strong assets in different consumer segments. The team has been able to reignite our growth in premium segments with the new innovations to lead in aspirational premium segments with Kent ladder range and to accelerate our growth with the latest Pall Mall brand refresh in the low segments. And similar success has been also achieved in other key markets.

In Bangladesh or Pakistan, for example, we retain our leadership despite very strong competitive pressure. In Mexico where we've built a consistently winning portfolio in the last decade, we keep on innovating and nurturing our key brands with a lot of passion.

Now, beyond the top line value creation, we have also for now several years developed a very disciplined approach to productivity and simplification with Zafar's team and we will continue these efforts. In terms of productivity, we are focused on generating savings through flexible sourcing and contracts with a specific attention on Leaf and Blends, which represent a critical portion of our cost base. Our market strategy approach is also guiding us to optimise our investment behind products according to the role of the market in our growth algorithm. In terms of simplification, we are clearly not standing still. We continue streamlining the amount of leaf grades, blends, formats, reducing unnecessary complexity, so we continue to rationalise our operations in combustibles.

All these efforts combined have made possible a sustained performance over the last few years. We've been able to drive top line value, despite the expected volume decline and to mitigate inflation and FX tension out there on cost of goods, on overheads, allowing us to deliver a growing margin over time.

In conclusion, we believe that we have a solid and resilient algorithm in combustibles. We can rely on a team of combustible talents across functions, an expertise built over more than a century of very large reach and a unique portfolio of brands. With that, we will remain competitive by satisfying adult consumers across price and product

segments.

We will continue extracting value through our revenue growth management, and premium portfolio mix opportunities. We will continue looking for cost efficiencies and simplification opportunities. And combined with the discipline management of our resource allocation, we believe that BAT combustibles will continue being a stepping stone to our wider transformation ambition. Thank you. I would like now to invite David Waterfield, president of Reynolds American to talk about US opportunity.

David Waterfield, President and CEO, Reynolds American Inc.

Thank you, Vincent. Well, good morning everyone. Thank you for joining us here today. I'm David Waterfield. As Vincent just said, I'm the President of Reynolds. I will be joined on stage by my colleague Jeff Raborn, who's Executive Vice President for Law and External Affairs. As you know, the United States is the largest most valuable nicotine market outside of China, with over 60 million adult consumers, of which almost 40 million are using nicotine across a range of product formats. The US market is the cornerstone of BAT's strategy and is at the forefront of industry transformation globally. Our business is well positioned to capture value and deliver growth in attractive revenue pools with a multi-category portfolio of leading brands, market scale, strong capabilities and talented teams. Over the past year, we have navigated headwinds in the US combustibles category, making investments that have delivered signs of recovery for our performance, and these investments have been completed.

In New Categories, we have remained leaders in the legal US Vapour market with Vuse and continue to innovate with new product introductions. This year, our Modern Oral performance has been reinvigorated with the launch of the new VELO mix and the introduction of Grizzly nicotine pouches. In 2025, we will further build on our momentum this year. The biggest challenge, by far, the biggest challenge in the US remains the lack of effective regulation and enforcement, which results in an uneven playing field where illegal products are widely available. Our investments in the US business have increased the resilience of our portfolio to both compete commercially and ensure readiness for potential future regulation. The US business is well positioned to capture the growing opportunity in the market and lead our transformation into a smokeless world. Now allow me to share more details.

The US is the world's largest, most valuable nicotine market, which is undergoing profound transformation as a result of changing consumer preferences. The total nicotine revenue pool is £41 billion growing at a CAGR of plus 2.5% between 2021 and 2023. The growth is driven by consumer demand for Vapour and more recently nicotine pouches or what we also call Modern Oral.

This sizeable and growing contestable space is being created by almost 40 million consumers who are poly using nicotine products across categories. The US market represents one third of the global nicotine value pool and is at the forefront of industry transformation, making it the ideal market for BAT's mission to build a smokeless world. Now, if we take a longer perspective back to 2017, when BAT fully acquired Reynolds, we can see that total nicotine revenues have grown 40%. That's up from 29 billion in 2017 to 41 now, while smokeless has grown 10 billion or 280% since 2017. This significant increase in nicotine revenues is primarily a consequence of shifting adult tobacco consumer demand for new modern product formats. Who wouldn't want to compete in such an enormous growth opportunity with scale and winning capabilities? We certainly do.

Now maintaining the same perspective on the period since acquisitions, we're going back to 2017, let's now focus on the combustibles category. Industry volume declined during this period by 6%. Price mix was 7%, which led to a marginal revenue growth at 1.2%. Now, projecting into the future which we can all agree is not an exact science, we expect industry combustible revenues to remain resilient at around plus +1% for the rest of the decade. Now, why do we think that? Well, we consider the current volume decline of over 9% to be abnormal, and with macroeconomic improvement, we expect a moderation of both down-trading and the current combustibles decline rates, although a higher level of decline than the recent period of 6% should be expected primarily due to increased poly-use.

In addition, we see that combustible affordability in the US still holds true with the average US pack of cigarettes costing \$8.30 cents, which is lower when compared to other developed countries like Canada, UK, France, or Australia. Our US portfolio of brands including Natural American Spirit, Newport and Camel in Premium, Pall Mall and Lucky Strike in value compete in more than 90% of the revenue and more than 95% of the total profit pool across all price segments, our brands will be competitive in either an up-trading or a down-trading market.

Now turning to New Categories, Vapour is estimated to be a 9 billion pound revenue pool in 2024, of which 1.5 billion is rechargeable closed systems, about £1.3 billion is open system, and approximately £6 billion is single-use Vapour products. Notably, today, almost 70% of the Vapour revenue pool is what we call a grey market, comprised of either illegal products or products which claim to have PMTAs pending. But given that the most recent deadline for synthetic nicotine products to remain on the market with a PMTA submission was May 2022, we can estimate that a large proportion are illegal today. With an estimated 25 million Vapour consumers in the US compared to 34 million combustible consumers, we expect that Vapour will continue to grow and play a key role in the industry's transformation, driven by an increasing consumer demand. By 2030, Vapour revenue is projected to grow by 5 billion to an anticipated revenue pool of up to 14 billion. Again, this is a projected consumer demand irrespective of enforcement.

Modern Oral nicotine pouches, while smaller in size, are also expected to show strong growth from £1.7 billion in 2024, up to potentially 7 billion by 2030. And the revenue growth in both categories is profitable with significant margins already demonstrated at scale. Now to participate in the transformation of the US market and the unrivalled growth opportunity, it helps to have scale. The acquisition of Reynolds in 2017 provided BAT with exactly that scale. In addition to the accumulated revenue and profit growth, not to mention the cash and the dividend, the capabilities acquired and further built on provides scale to fully participate in the future US growth. Examples of scale projection include a consumer reach, up to 50 million consumers through retail and digital, trade coverage and relationships with 186,000 contract partners, significant science and regulatory capabilities to meet the ever-shifting regulatory requirements, an extensive portfolio of approximately 5,000 patents and pending applications, and a consolidated and increasingly agile manufacturing footprint.

Our US business has a proven track record of building and managing multi-category portfolio brands, from maintaining strong positions in combustibles across all price segments, to launching the Grizzly brand 23 years ago, to building Vuse Alto to over a billion-dollar business with profitable leadership in the legal Vapour category. And now more recently with Grizzly and VELO, our US business has the capabilities to compete in a rapidly changing consumer market. And the magnitude of these fast-evolving trends is significant. We estimate that 52% of combustible consumers are poly-using with other nicotine categories. Overall, 64% of all nicotine consumers in the US are using or poly-using a new category product. Multi-category consumer choices have long been the US strategy, and it is clearly the future direction of the market. This puts us in an excellent position to compete and win.

Now as I'm sure many of you are aware, it was necessary to invest this year to strengthen our US combustibles business and address our performance. The issues with our portfolio are fully understood and the previously announced investment has now been completed. As we lap these commercial initiatives, we are confident we will see an improved financial performance in combustibles in 2025. We have built resilience into the portfolio, not just for economic cycles, but also for potential future regulation. This comprehensive program of planned commercial activities covered a range of actions, including portfolio-wide price realignment, addressing affordability pressure on our premium Newport brand with soft-pack, addressing the heightened down trading due to the economic situation with Lucky Strike, for example, expanding our trade contract coverage by five percentage points up to 88% of industry volumes and growing market share in those newly contracted outlets, and also investing in scale digital reach for enhanced promotional effectiveness.

These commercial actions are already delivering improved performance, particularly in share of premium and share of market, excluding deep discount where we are not present. And as a reminder, we play in 90% of the market for revenue and over 95% of the cigarette market for profit. The results we have achieved have broadly brought our performance back in line with the rest of the market. And as you can see on the table on the right, there are continued signs of volume and value share recovery. In Vapour, we continue to strengthen our leading Vuse brand in rechargeable closed systems.

With leadership in 40 states and over 50% national share in track channels, Vuse is BAT's largest and most profitable new category business in the world. This year, we introduced the Prismatic series to reinforce Vuse as the premium benchmark in the market, and the early signs are promising as Prismatic achieved 1.2% value share in August, having only been launched in July this year. At the same time, we introduced Sensa, our zero-nicotine, single-use product designed to offer adult nicotine consumers more choice as their preferences evolve. Our research indicates nearly 1 million adult nicotine consumers already enjoy zero-nicotine products in the US and today, these products are available in over 30 states.

Last, but by no means least, we have reinvigorated our performance in Modern Oral, the fastest growing category in the US market, growing 63% this year. The Refresh Velo Mix, which included packaging and communication upgrades was first piloted in New York, growing volume share from 9% one year ago to 16% by August this year. The national rollout commenced in the first quarter of this year, and volume share has increased from 4% to approximately 7%, stabilising as we tapered discount support, which is a proven practice in the market to establish distribution and drive trial. We also introduced our Grizzly Modern Oral offer in June to maximise the value of our most popular traditional oral brand in the US. Our consumer insights confirm the strong potential of the proposition, which has achieved almost a share point of the Modern Oral market within three months of launch.

Now, enhancing our Modern Oral portfolio is a major focus for the US business. As we look to replicate the leadership position we achieved in other markets around the world, as you've heard earlier today, in 2025, we will introduce our Velo+ offer, which has a higher moisture profile, a broader flavour range, and more nicotine strengths. We know that adult nicotine consumers want superior product choices from trusted brands, and based on our research, Velo+ offers precisely that, a superior product experience. We expect that this strong product offering combined with our marketing capabilities and scale will allow us to capture more of the Modern Oral growth in the US. Beyond Velo+, we continue to innovate and have an extensive pipeline of PMTAs already submitted for Velo. These pipeline products build on our expertise from our leading Velo product in Europe with enhancements to reflect the preferences of the US nicotine consumer. We have really exciting plans ahead for Modern Oral and we look forward to sharing more in due course.

Now as a sidebar, it's also important to note that we evaluate the complete range of US new category growth opportunities, and in regard to heated tobacco products, we remain sceptical on whether the characteristics of the US market are favourable for its development. Heated product success has been correlated to tar and nicotine content in cigarettes. Smokers with preferences for high strength combustible products in markets like Canada have been less likely to switch to Heated Products than smokers in low strength markets. And bear in mind, the US tar level is amongst the highest globally. We do not see the same opportunity for Heated Products as we do for Vapour and Modern Oral. However, we have submitted PMTAs and MRTPAs for our glo products and we will be ready to compete. Now I'd like to turn it over to my colleague Jeff, to provide us with an overview of the US regulatory environment.

Jeff Raborn, EVP Law & External Affairs

Good morning, it's my pleasure to be here. Today, I will focus on the illicit enforcement aspect of the regulatory environment where we have engaged credibly and effectively for well over a year. So, we have 50 pending PMTAs, in case you didn't know, and more marketing grant orders, 22 of them, than anyone else in the industry. So no one has more interest in this than we do. Now, It's been a long road, and it will remain a long road, but we are starting to see progress on the enforcement front. For example, FDA

has proposed a rule requiring tracking numbers for import, which will help customs and border protection to stop illegal shipments. The creation of a multi-agency task force with FDA, DOJ, ATF, the US Marshals, the Postal service, and the FTC is very good. Both of these things, we have pushed for over the last 12 to 18 months.

Also, FDA has ramped up frequency of its warning letters, seizures and monetary penalties, almost 1500 letters in 2024 alone with 50% of them aimed at single-use products. It was in the 1% range. Seizures are up year over year by almost 250%, and monetary penalties are up as well. Now, one of the things that led to this progress is that there's been significant pressure on FDA from both the media and Congress. The media coverage of the THR issue generally, the notion that Vapour products present 95% less toxicants, but FDA has denied 99% of all PMTAs combined with the explosion of illicit products drove federal and state officials to take notice. There have been multiple House and Senate hearings where Democrats and Republicans, both sides of the aisle, pushed FDA officials on why the delay in enforcement. State governors, attorneys general and state legislators have begun to take note as well and I'll talk about that next.

So while there has been much progress, much more needs to be done to make it commercially meaningful in light of how the market continues to change. As you can see on the chart, the geek bar image on the slide, these LED screens were non-existent in January of this year in the US. So we believe these products cannot be compliant with the current rules and regulations, which is one of the reasons why we've taken the proactive step of filing two complaints with the International Trade Commission, both of which were accepted and investigations have begun. We had our temporary exclusion order hearing two weeks ago on the patent complaint, which focuses on 35 manufacturers, and our general exclusion order hearing in the PACT Act complaint will be in February of '25. This focuses on about 30 manufacturers.

Now, none of this is fast enough for our liking, but again, combined with the other pressures, we are hopeful and optimistic that we will see more effective enforcement as we move forward, but that's not all. We've also taken the issue to the states, where 14 have enacted some form of enforcement legislation, in the last two years. Louisiana has proven to be the most effective model. It requires PMTAs to be on file with its directory, a manufacturing fee, licensed retailers may purchase only from licensed suppliers, and penalties for violations are tied to law enforcement pay. Now, not all states are created equal, and they're not the same, of course. For example, Alabama and Oklahoma had the PMTA on file requirement, but no enforcement funding or mechanism. That was proposed in this year's sessions in both of those states. And we expect it will be proposed again next year.

And we are optimistic for improved enforcement in all of the 14 states. In fact, 10 states passed directory or enforcement bills in 2024. Now, speaking from experience, this is a big deal when you consider how difficult it is to get multiple states in the same legislative session to pass similar bills. These 14 states with enforcement laws now in place cover

approximately 30% of industry volume, and we expect there to be more states in 2025 to pass these laws, and we are seeing how commercially meaningful that can be. So in Louisiana, since implementation, you see 28% growth in the legal Vapour market and a 91% reduction in track channels for single-use illicit products. That has translated into faster growth for Vuse in both volume and market share. Louisiana shows it is possible and we believe this will become more effective in both Louisiana and in the other 13 states, as well as any additional states that come online during the 2025 legislative sessions. I look forward to any questions you might have in the Q&A, but at this point, I'll turn it back over to David.

David Waterfield, President and CEO, Reynolds American Inc.

Thanks, Jeff. So to conclude, we see a resilient combustibles value pool in the US driven by the strength of our brand portfolio. Alongside this, we continue to see a tremendous opportunity. There is a 14 billion revenue pool, which is growing strongly, up 11% since 2022 alone, driven by a changing consumer preference for non-combustible nicotine products. Approximately 40 million consumers are participating in these dynamic New Categories, or 64% of the total nicotine consumer population. Today, some of these spaces are contestable to our US business, for example, oral, and some are not, i.e. nicotine Vapour products that disregard regulation.

Now, imagine, if you will, a set of circumstances in which the regulatory process is efficient and effective at bringing scientifically substantiated products to market faster. And now imagine the regulations enforced and the illegal product availability across the United States is significantly reduced versus today. Now consider that Vuse, as a leading brand in both the US and in the rest of the world, is able to compete on a level playing field, and that VELO can replicate its proven track record in Europe in the United States with products that adult nicotine consumers prefer. Now, if you consider the future growth projected, our business capabilities, our brands, and our scale to achieve a significant share of this growing revenue pool, well then, it will be clear what building a smokeless world looks like in the US and how our business is positioned to win in the world's most valuable nicotine market. Thank you.

Victoria Buxton, Group Head of Investor Relations

Thank you, David and Jeff, and to all of our morning presenters. We will now start the first of our two Q&A sessions today. And so I'd like to ask Tadeu, David, Jeff Luciano and Zafar to come on stage. So we will be taking questions from the room, and if you have a question, please raise your hand. There are people at the sides of the room who will be available to hand you a microphone. Fine. Do you want somebody here?

Faham Baig, sell-side analyst, UBS

Thanks. Faham Baig, UBS. Thank you for the presentations. Certainly a lot to digest. Two from me to begin with. I guess Luciano first, I think you mentioned you expect more limited long-term potential in Heated Tobacco compared to the other two categories. Maybe could you expand on that and what you mean by it and sort of balance it with the investments that you're making in that category?

Luciano Comin, Chief Marketing Officer

Yeah, so first, it's very difficult to say because as you know, all these categories are moving extremely fast. But what we have seen in the last 12 months is that the category of Heated Products is slowing down its growth in the main markets. And the main reason is because these consumers are probably using more and more with vaping and Modern Oral, and that is happening more and more. So that's one reason. The second reason is because we think so far with the technology available, the potential for Heated Products in the developing world is less because the cost of the device is more expensive.

So we see that especially in the developing world, both vaping and Modern Oral are growing much, much faster. And all the attempts of introducing THP products in developing worlds so far is not working. So that's one thing. So your second part of your question is we will still invest in HP basically because although we are leaders in the value segment, we have almost nothing in the premium segment where 80% of the revenue is. And with this new product that I cannot talk about, we think we have a lot of potential to compete and to win a bigger space where 80% of the revenue is. So we'll keep investing. We are very confident on the product we have, but in the terms of long-term potential, we think, and we believe that both vaping and Modern Oral will have more potential long term.

Faham Baig, sell-side analyst, UBS

Hello? Okay, brilliant. The second question is the bifurcation between the U.S. and Europe. So I think you presented 33% of revenues in the U.S. are now smokeless, and clearly, that's having an impact on cigarette volumes being down roughly 10%. But if we take a look at Europe where I think 36% of your revenues are smokeless, cigarette volumes are flat, in some markets, even growing. So could you maybe expand on why

Europe isn't seeing the same decline in cigarettes compared to the US where next generation products are still doing reasonably well?

Tadeu Marroco, Chief Executive

I'll get this one. Look, the U.S. is a very unique situation on the macroeconomics as well, because you have to go back to the pandemic era in 2020, there was a lot of support from consumers, mainly low-income consumers. On the federal level, state level, consumers didn't have any ways to even spend the money. So all of a sudden, you saw a category that it has a secular decline of 4%-ish, four to five, going up in 2020. So very different, let's put it that way.

And this whole thing changed dramatically in a U-turn from 2022 onwards. Levels of inflation went up substantially, interest rates went up substantially. All this money from federal state level was taking out and consumer started having less discretion to spend. I think that that aggravated in the U.S. in particular, the consumption of this cohort of consumers, and not just in the cigarette space, but also in other industries as well. And then on top of that, this got exacerbated by the proliferation of illegal Vapours, which is not the same scale that you see also in Europe. So I think that the circumstances in the U.S. are different in that perspective.

Victoria Buxton, Group Head of Investor Relations

Thank you. Any other questions? Richard.

Richard Felton, sell-side analyst, Goldman Sachs

Thank you very much. Richard Felton from Goldman Sachs. My first question is for David, and it's a question on U.S. Vapour, which you spoke about reaching 12 to 14 billion market size by 2030. So I'd be interested to know what assumptions you make to get to that number. Specifically, what kind of regulatory framework do you envisage? Are there flavours in the market or not?

David Waterfield, President & CEO, Reynolds American Inc

Yeah, thanks for the question. That trajectory is based on no expectation on enforcement. So we're just looking at pure consumer-driven demand. You can see all of the demographic age breakdowns, how consumption incidence is evolving. You can see the preferences in the market. So we are not overlaying on that, a change in the current regulatory scenario. That's just pure consumer-driven demand. And as Jeff was explaining, the key is to address this incredibly large grey market so that BAT can compete in it and gain a share of that.

Richard Felton, sell-side analyst, Goldman Sachs

Great, thank you. And then the second question is on your R&D and innovation model, specifically on Vapour, and my question's around Smoore, which is your main innovation partner, but I understand also partners with some of your competitors and has some of its own consumer brands that I suppose competes with Vuse. So my question is, first of all, is that long-term, is that the right innovation model for BAT in Vapour? And then secondly, if it is, how do you ensure that incentives are aligned that when you drive innovation with your partner, that is specific innovation for Vuse that's differentiated to your competitors?

Zafar Khan, Group Operations Director

Okay, putting it into perspective, the Smoore's relationship, Smoore has its own brand, but they're primarily focused on the open systems. It's a brand called Vapresso. Our big tobacco competitor that deals with them is Altria in the U.S., which is a brand called NJOY for the US only. Now, how have we transformed the strategic relationship? And that is the fundamental crux of this question. Our relationship with them is based on joint developments, it's based on exclusivity on projects, it's based on joint investments into projects. And hence that gives us a runway with them that they have agreed to share.

Now, they don't have any plans or any current intention in this very, very sort of decentralised or spread Vapour space to build a brand of their own in that space. They don't have any intention as at now, and they do not have the ability to have that kind of a distribution scale either. So currently, our relationship is quite tight. It's been like that for the last five to seven years with them, including the U.S. They also don't have any PMTAs or any further flexibility in the U.S. So they go through us and that is the crux of it. Whether they're going to go into a marketing product with other companies, they have the freedom to do that. But when we talk of exclusivity on technology, on new technology, that is where we are covered.

Richard Felton, sell-side analyst, Goldman Sachs

Thank you very much.

Victoria Buxton, Group Head of Investor Relations

Okay. Gaurav.

Gaurav Jain, sell-side analyst, Barclays

Hi, Gaurav from Barclays. So Tadeu, a question for you. So your financial algorithm is not changing, so revenue growth is still 3% to 5%, EBIT growth is still 4% to 6%. But you have shown slides which suggests that the industry revenue growth rate is accelerating, what it used to be, let's say a few years ago, it was 3.5%, now it's 4.5%. And also, the profitability of NGPs is much higher than cigarettes. So how is BAT benefiting from this entire transition in financial numbers?

Tadeu Marroco, Chief Executive

Well, I think that what we are trying to say is basically the industry is heading that direction, which is I would say is compared with other FMCGs, there are not many that could say that "We're expecting this type of value growth for the future." That's the first point. The second one is the fact that there will be different components to this growth. Now we expect combustor to be less so, that's why when I open up the three to five, I said, well, combustible will probably be between flattish to 2%, and most of the growth coming from New Categories. And we are actually exposed a lot for combustible mainly on the U.S. side. So this is another equation for us. But the three to five is supportive, not just by the industry move, but what I call that is very unique for BAT is this potential white space that I was referring to.

Because when Luciano talks about 80% of the value of THP is where we are not basically present. This is a white space for us if you get it right. When we talk about 1.7 billion revenues in Modern Oral in the U.S. where we are just starting, this is another bigger white space for us or even the 6 billion in terms of illegal products in the U.S. that could be. So I think that what we are saying, getting some of those right, I don't need all of them right. We should be comfortable within the range of three to five, and this should translate into the four to six, and I always call the attention that the four to six include transaction FX, because it's not a kind of one-off effect. It's every single year, there is transaction FX has been the case for years now. And so, if you talk in a currency neutral base, it would be even higher than the 426. I think that is a very compelling algorithm that's not just supported by the trend that we are seeing from the industry side, but also for the opportunity specifically for BAT, and to leverage on all these capabilities that we have created and start sharing with you today.

Gaurav Jain, sell-side analyst, Barclays

Sure, thank you. And a question for Luciano, so this 9 mg VELO product, which you are saying you will launch in Q4 in U.S., does it have a PMTA, or how are you launching all these new products when they were likely not present pre-2020?

Tadeu Marroco, Chief Executive

David will answer.

David Waterfield, President & CEO, Reynolds American Inc

Yeah, let me take that. So we acquired a product that was on the market in 2022. They had submitted a full PMTA submission by the deadline of May 2022, and we acquired fully that product. We are very confident in the submission that was relayed. We are exceptionally confident about the product and the product quality and what we expect from it, but that's what we needed to do to move forward, is to acquire a product that allows us to not just keep waiting for... Well, obviously we know what a great product is.

We sell it every day in Europe. We would like that in the U.S., but that has to go through the process with the FDA. So, this was an opportunity that we couldn't turn up, and that's what we'll be bringing to market very shortly.

Gaurav Jain, sell-side analyst, Barclays

So this is a synthetic nicotine product?

David Waterfield, President & CEO, Reynolds American Inc

Correct.

Gaurav Jain, sell-side analyst, Barclays

And will this be one of the first synthetic nicotine products you'll be launching? Like how are you approaching the entire synthetic nicotine space? Is this something you would want to go more aggressively in?

David Waterfield, President & CEO, Reynolds American Inc

Well, we'll continue to look for opportunities if they have evidence of being on the market and if they have a good submission on those products. Obviously, nicotine derived from tobacco and synthetic nicotine, from a chemical point of view they're the same. There was obviously a deadline of May 2022, so people needed to have good products on the market by that time. Obviously, we see in the market today many people don't, but this one did, so that's why we acquired it.

Gaurav Jain, sell-side analyst, Barclays

Thank you so much.

Victoria Buxton, Group Head of Investor Relations

Any other hands? Damien. Ray.

Rae Maile, sell-side analyst, Panmure Liberum

Rae Maile, Panmure Liberum. I hope Jerry Abelman doesn't take this too personally, but I'm delighted in looking at the lineup today, there's no update on litigation, which is quite a big change for the last 25 years' worth of these events. I wonder in the absence of that, though, you could just touch on Canada and the situation with respect to the group action, class action, whatever you want to call it in Canada, because I know the most recent stay is only for a month, whereas all the other ones have been rather longer.

Tadeu Marroco, Chief Executive

Yes, well, look, the CCAA deal negotiation precludes us to make, as you can understand, comments about what has been discussed, because we are bounded by confidentiality, but there are three principles that I have always referred to, and they are valid, that we make sure that we get out of this negotiation. One is a local deal with the Canadian subsidiary. Is not a PLC deal, so whatever negotiation come out of the CCAA is to be paid and afford by ITCAN, our BAT subsidiary in Canada. That's the first one. The second one is a combustible deal, so it's not a known combustible, so all type of earnings coming from non-combustible result of this deal. And the third one needs to be a comprehensive deal that encompasses all the past, future, and not a piecemeal in terms of plaintiffs. No, need should be very comprehensive.

Now, the other point that I have been made in always is that CCAA, because a lot of people make an analogy between that and MSA, and they are very distinct realities. If you go back to the U.S. of the nineties, when we have the MSA, first there was no illegal product in the U.S. The price elasticity very low, the excise incidence very low in the U.S., which means that the industry actually price up, and then things move on. If you go now to the reality in Canada today, is a completely opposite. One-third of the market is illegal. We have a very high level of price elasticity, and the excise is very high. So this means what? So what I'm trying to say to all, that's what I have been saying so far. There will be two major impacts for us. One, the cash that has been trapped since 2019, these will go as soon as we come to a deal with the plaintiff, and this has an impact not in gross debt of BAT but in net debt, and there's a consequence on leverage that is calculated from the net debt.

The second point, because of the analogy that I just made on the MSA, there will be some earnings haircut material, earnings haircut for the future, because the cash trapped in Canada today will not probably be enough to pay for all the penalty, and there will be some payments, future payments.

Now, I don't know how many of you are aware of, but the court in Canada has publicly said a few days ago that they are willing to up to the 12th of December to put in front of the creditors a proposal for them to vote. So I would expect from anytime from now until the 12th of December to hear back in terms of what the proposal is, and I would make sure that the three principles that I was referring to are factoring in, and then we're going to make a full assessment of the details behind that. So with all these uncertainty and the lack of I would say more details that I can provide at this point in time, what we have been doing for some time now is providing all the visibility for all the investors, analysts about what BAT Canada means for us as a group in terms of revenues, in terms of profit, in terms of impact on leverage.

I said that the impact on leverage is circa 0.3 times, and you have all the detail around the, in the profit, and I always say, look, the best way for you is to start stripping out the whole Canadian business out of BAT numbers so you can have a look what is the group shape looks like moving forward. And then we see where we land, and then we have

much more clarity from the point of time that they put this proposal through to have a more I would say conclusive discussion around that. But I think that is getting closer now than definitely than was before. Thank you.

Victoria Buxton, Group Head of Investor Relations

Any other?

Martin Stewart, Allianz

Hi, I'm Martin Stewart from Allianz. Across the various presentations, there's the theme of the 6 billion, I would say. If you have the right regulation, how much of the 6 billion falls within your offering, and how much would you view as being a success to pick up?

David Waterfield, President & CEO, Reynolds American Inc

You're talking about the 6 billion revenue pool of Vapour in the U.S.?

Martin Stewart, Allianz

Yeah.

David Waterfield, President & CEO, Reynolds American Inc

For disposals, yeah. Well, that pool is today not available to us. We don't have those products, and as I said, we believe the vast majority of those products shouldn't be on the market. So what would it take is for that regulation to be enforced so that volume that is currently being sold in an illicit manner to disappear, and then obviously there are products with pending PMTAs, or an MGO in the case of use-ultra-tobacco, that we would obviously further develop and further build our business and take the space over time. That would be the plan. As Jeff mentioned, we have a large pipeline of PMTAs with improved products offering more choice, so the idea would be to win in that enormous pool of revenue. But to do so today we need the PMTAs to be expedited in an efficient, effective way, and we need the rules enforced in the market so there's a level playing field, and we don't have that today.

Tadeu Marroco, Chief Executive

Yeah, look, I just want to add something on that. We talk about the 6 billion. For sure that is very difficult to imagine that one day you're going to see this disappearing complete from the market, because if you see the channels where these things are being sold, you have the track channels and the measures that states that they can be very effective. You just saw what happened in Louisiana, 91% of reduction in track channels, but most of the product not sold in track channels. They're sold in internet. They're sold in Vape stores. But even if you have a third of this volume being enforced, this is already almost 2 billion of revenue up for grab, and we have a lot of support and

with views to grab most of it like we are at seeing in Louisiana.

The other point is that we have submitted more recently, the first half of the year, PMTA with the youth age prevention, which is a kind of indication that the FDA could be, because they told us, have to see if they will do it, but they want to expedite this assessment of these PMTAs, and this could bring back eventually some of this competitiveness back to us as well, because we are not competing against just the displays that you saw in this slide. We are competing against flavours that we are not allowed to commercialise today. But eventually this scenario can change if you have a device with youth access prevention on it in terms of technology, but this is for the FDA to decide. But between better enforcement and us being able to compete in a more level playing field, we believe that a big part of this 6 billion could translate into opportunities for us.

Victoria Buxton, Group Head of Investor Relations

Damian, you had a question?

Damian McNeela, sell-side analyst, Deutsche Bank

Yeah. Hey, morning everybody. Thank you. It's Damian McNeela from Deutsche Bank. Just a first question on those countries where New Categories are essentially banned. I was just wondering if you could provide any colour on what actions are being taken and whether there are any sort of particular markets that you're focusing on to do that?

Tadeu Marroco, Chief Executive

Yeah. Well, yes, we are looking very closely to some of those big markets, Brazil clearly one of them. Turkey is another one that we are in very close contact. We have been very proactive in terms of talking with media and talking with regulators and trying to share the science behind, because all our objective is to have a kind of scientific evidence-based discussion, because the problem that we are facing is that some of those governments, they believe that banning is the solution, which is not clearly the case, and there is a big distinction between good Vapour and bad Vapour. The reason why we are so careful in terms of position views as a brand with trust and be abiding to some rules in terms of duty of care is exactly to preserve the nature of less toxicants in our products, which is not the case when you don't regulate, and that's the type of points that we want to make when you engage with those regulators.

In Brazil, for example, we know that there is a project law that's been discussed in the Congress to bring back some regulations. So we are trying to follow this very closely and trying to contribute to the debate as much as possible. In Turkey we also talks without regulators there to try to see, and because at the end of the day the consumption is there, and independent of them taking an action not, they are just preventing more smokers to have access to this product and at the same time not regulating what has

been consumed and having all the problems, not just about the bad products versus the good products, but also access to minors, because if you don't regulate, you lose control completely. What are the channels that you sell? But we are trying to focus on those bigger big markets.

Damian McNeela, sell-side analyst, Deutsche Bank

Very clear. And then one for Luciano, and given that he spent two weeks to get that picture in the deck, I'm not hopeful of an answer, but I'll give it a go. Your price position for the new premium heated product, obviously it's going to be a premium to your current offering, but can you give us any insight in how you are thinking about positioning it relative to the market leader?

Luciano Comin, Chief Marketing Officer

Nice try. No. Parity.

Damian McNeela, sell-side analyst, Deutsche Bank

Parity.

Luciano Comin, Chief Marketing Officer

More important than the devices are the consumables. That's where the money is. The interesting thing about Heated Products is that the quality of the consumers you attract, and the quality of your brand strength comes from the device, but the money comes from the consumables, but you need to have a device to attract those consumers. So in principle it will be around parity.

Tadeu Marroco, Chief Executive

You have to think about the different platform, which means also different consumers, yeah?

Damian McNeela, sell-side analyst, Deutsche Bank

Thank you.

Victoria Buxton, Group Head of Investor Relations

Simon.

Simon Hales, sell-side analyst, Barclays

Yeah, thanks. Simon Hales from Citi. My first one was, just clearly there's a lot been going on behind the scenes at BAT over the last few years to improve perhaps your consumer

insight tools that you talked about, your speed to market in terms of innovation. I just wonder, when you look at your scorecard now, where do you think you are versus peers on that journey? Have you just caught up, or do you think you are ahead in terms of the digital tools, the capabilities you've got in the organisation now?

Tadeu Marroco, Chief Executive

I do believe for the future ahead of us that the ecosystem that we are trying to build is really competitive, because I don't think that, different from the past hundred years, where this industry has the luxury to be vertically integrated, because we were vertically integrated. We have our farmers. We produced the leaf. We buy the leaf. We send to the GLTs. We process the leaf. We send to the facts. We manufacture the cigarettes. We have our own distribution. We distribute 11 million points of sales on a daily basis. It's all done by us. I don't think that we in this new world, you can have the luxury in doing that. So to have the, for example, external partnerships that can complement and work in tandem with you developing IPs together and developing new capabilities that will be impossible for us to do in isolation, like material science, batteries, like the BYDs and all, it's quite important, and so this position does very well for the future.

I also think that our consumer insights of our side, like I said in my opening, we believe that we know more than within the industry, because we have been doing that. It was painful. Like I said, it's painful. Why? It's painful because you have to invest building three brands as opposed to go one by one. You also have time to slowly, because you have time to develop all these learnings. We have learned a lot. I tell you, we have learned a lot in terms of efficiency of investment, where we get best of return on that. We're going to talk about this in the afternoon, with Soraya bring another focus on that moving forward.

And for us to be able to do personalisation, customisation, we also need to have a step up in terms of digital site, in terms of, because this will be the way for us to preimmunise. And we are trying to scale up on the digital side as well, not just for new tools like the insights and foresights like Julian was referring to. IP's another tool. We are working in partnership with Microsoft to develop a solution for IPs using AI as well. But more important, the data. We believe that we have a good platform after the investments that we have done across the group in terms of the backbone to build on. But there is a lot of unstructured data we need to collect, and that's where the focus is on. But I think that we are in a very good position to compete for the future now.

Simon Hales, sell-side analyst, Barclays

Can I have one more quick one?

Victoria Buxton, Group Head of Investor Relations

Quick.

Simon Hales, sell-side analyst, Barclays

Very quick one. Just going back to the U.S. and the combustibles market. I mean, you talked about an expectation of the CGAR there for revenues returning back to 1% out to 2030. I mean, do we think we could get there from 2025 onwards, or how are you thinking about how that evolves?

David Waterfield, President & CEO, Reynolds American Inc

Well, I mean we are seeing elevated decline rates this year of 9.4, 9.5% for the industry. What we're also seeing, though... I think virtually every month this year we've seen a decline in the absolute volumetric growth of deep discount. It is now not growing. It is flat. So there's certainly a sign there of some stability. The way simply I'd break that nine, nine and a half down that you're seeing this year, roughly four is structural. We carry that forward. You can assign 2% of the decline to the macros. So, whether it's down trading into deep discount or whether it's what we call ADC, or average daily consumption moderation, that approximates to roughly 2%. And then the remaining four is the poly-use, where you're sharing consumption across these other categories, which is obviously our strategy.

Now within that 4%, 2 of it, half of it is disposable Vapour products. So going into next year, obviously you'd want to see some macroeconomic improvement coming through. For our smokers in the US, with their particular income profiles versus the market, there's obviously a need for them to see some changes in other prices, gas, groceries, transportation, so on, so we would need to see some macroeconomic improvements to start bringing that through. But there is clearly an indication of some stability, because that trend of deep discount slowing to a stop volumetrically is crystal clear, and it's been going on all year.

Victoria Buxton, Group Head of Investor Relations

Okay. Thank you very much for your questions and thank you very much to the panel of morning presenters. We now move on to the interactive part of the day. If you're joining us online, the webcast will now be paused until we resume presentations at 2:55 P.M. Please do rejoin us then.

[session breaks]

Kingsley Wheaton, Chief Corporate Officer

Good afternoon, everyone, and I'm delighted to be here to talk about the sustainable future pillar of our strategy. I shall be joined by Dr. James Murphy and Flora Okereke, who will go deeper into our scientific and regulatory approach. Of course, enabling a sustainable future is critical. It will create the landscape and the external environment in which our brands and our innovations land, flourish, and drive growth, becoming the springboard for the value that we can create today and tomorrow.

So, we're aiming to do two things simultaneously, deliver long-term multi-stakeholder value, whilst also building a smokeless world. There are well over 1 billion smokers worldwide. That means plenty of runway for the transformation to be value-creating over the long term. As we look at it, BAT is at its best when delivering multi-stakeholder value, delighting consumers, benefiting society, and delivering superior returns for investors whilst offering a fantastic experience for our employees and to reinforce our ambition. As Tadeu said, we have two critical medium-term ambitions, 50 million consumers of new category products by 2030, and we're well on our way with 26 million today, and a BAT that is a predominantly smokeless business in revenue terms by 2035.

And I'm often asked to project BAT's transformation into the future. Questions like, when will BAT sell its last cigarette? And my answer remains the same. Without knowing how external forces act on our transformation, one cannot fully predict that future. Put simply, it's not in our hands alone. And a crucial enabler will be the regulatory landscape. That regulatory landscape over time will be informed by societal perceptions of tobacco harm reduction, and THR will be underpinned by both our and the world's credible science. And that is high quality peer-reviewed science. Let's remind ourselves that today, Australia, Brazil, and India remain arbitrarily closed to New Categories. In short, it will be the external landscape that we operate within that will be just as important as our brands and our innovations.

So how might we think about shaping that regulatory landscape that enables faster transformation, enabling the realisation of a smokeless world which will underpin sustainable value delivery over the long term? At BAT, we believe that is about shifting perception of THR acceptance. How could we ensure that over the long term, THR becomes the tobacco control thesis of choice?

And we do understand quit or die, and we do understand the precautionary principles that enshrine it. It is a doctrine that is founded in "what if" thinking, what if the science is wrong? What if they are more harmful? What if there is a gateway effect? I could go on. Rather, THR is founded in what could be. There's a policy platform founded in pragmatism, even optimism, of hope and of belief that there is a better way for the world's 1 billion smokers. And as James will reflect, if we could just mirror the smoking rates of Sweden, in Europe, it's been estimated that millions of lives could be saved.

And we recognise that's an unenviable choice for policymakers. Do they act now and potentially save those lives, or do they wait? And in turn, as the THR needle moves, so too will the regulatory landscape shift, a regulatory landscape that is becoming increasingly conducive to tobacco and nicotine transformation, where acceleration of smoker conversion completely over time will accelerate and smoking rates will inflect downwards, just as they have done and they are doing in Japan, in the United Kingdom, in the United States, in New Zealand, and in Sweden.

We've always been clear what smart regulation looks like, and we've developed a clear framework. This may look simple, but it's surprisingly hard for regulators and policymakers to light up four smart regulatory green lights. Today, our way forward is clearer than ever, largely thanks to the capability enhancements Tadeu has championed as CEO, notably in science and Cora. We are codifying our regulatory principles, informing our regulatory must-wins whilst also being clear about our red lines. And I'm delighted Flora, a longtime colleague of mine will join us on stage to talk more about this.

So this strategic pillar is about our sustainable future. Think about it as the landscape we operate in. Never has it been more important that BAT and our industry get this right. That's why we're connecting science, corporate, and regulatory affairs and sustainability more closely than ever, with the aim to ensure and enable the external environment is the right one for our transformation.

Our first priority is to shift societal and stakeholder perception of THR, and that shift starts with science, and it starts with evidence. And that's why we created and recently launched the Omni, bringing together for the first time in one place the evidence and thinking that we have amassed on nicotine transformation. Think of it, if you like, as a BAT manifesto, an active, dynamic platform that will spearhead our sustainable future approach. And I'll come back later to talk more about Omni.

And that thinking starts with objectivity. It starts with science. So please join me in welcoming to the stage our Director of Research and Science, Dr. James Murphy. Thank you very much.

Dr. James Murphy, Director, Research & Science

Thank you, Kingsley, and good afternoon, all. A core tenet of our strategy is to reduce the health impact of our business, and we seek to do this via tobacco harm reduction, defined in 2001 by the US Institute of Medicine, now the National Academies of Sciences, Engineering and Medicine. Tobacco harm reduction is a global public health policy enshrined in the World Health Organisation's Framework Convention on Tobacco Control. In short, tobacco harm reduction is the complete switching of adult smokers who wish to continue using nicotine to lower risk forms of tobacco and nicotine products that would over time deliver a beneficial public health impact.

The R&D that I joined 20 years ago was very different compared with today's global innovation and science ecosystem. As innovation in science has enabled the commercialisation of a new range of tobacco and nicotine products, our science capabilities have also changed dramatically, with capabilities enabling the assessment of new products from laboratory through clinical to population level. At the tip of the science and innovation sphere, we have our power metrics of 265 peer reviewed publications and over 8,200 granted patents in the last decade. As Zafar showed earlier, we have nine locations within our ecosystem, which enables us to have the best scientists and engineers from around the globe. And around 40% of our technical community are of postgraduate education level, with over 200 PhDs.

As Luciano alluded to earlier, quality and trust are core to our smokeless product brands. Key to delivering quality and trustworthy products is our product stewardship process. Over the many decades of R&D, we have created an end-to-end product stewardship process that covers the life cycle of our products. We believe this approach is a key differentiator between our products and many other smokeless products sold in the market.

Over the last number of years, we have undertaken our most significant assessment of the three categories of products. Using our published scientific assessment framework, we conducted a multi-year program of scientific studies to assess the emissions, exposure, and risk of our smokeless products. Starting with emissions, we measure the levels of toxic chemicals in the contents and aerosols of the smokeless products and their subsequent toxicity, exposure in clinical settings, measuring the levels of toxic chemicals that users are exposed to when they switch from smoking to using smokeless products, and risk in clinical and population level settings, assessing the relative risk of our smokeless products to smoking in terms of individual and population-based risk. Importantly, we continue to monitor the population health outcomes of smokeless products to assess if their lower risk profile translates into beneficial public health impact.

Now, as there is no combustion, it is generally accepted that smokeless products have significantly fewer toxicants than cigarette smoke, and those that are present are so at significantly reduced levels. Focusing on a representative set of toxicants, the World

Health Organisation's Tobreg 9 list, the levels of toxicants with Heated Products are typically 90 to 95% lower than cigarettes. Vapour, 99% reduced, and Modern Oral has the lowest levels of toxicants of less than 1%.

To put Modern Oral into context, we recently published a paper that showed Modern Oral has a similar toxicant profile to nicotine replacement therapy products. In classical toxicological assays of our smokeless products versus cigarette smoke, we observed reductions of 94%, 97%, and 99% for Glo, Vuse, and VELO respectively.

Finally, we assessed if smokers completely switching to smokeless products would be exposed to reduced levels of toxicants. And in our clinical studies Glo, Vuse, and VELO respectively, we observed biomarker exposure reductions of 89%, 99% and 99% again for Glo, Vuse, and VELO respectively relative to smoking. Importantly, these reductions in toxicant exposure were very similar to those for smokers who quit all tobacco use.

Furthermore, we have conducted three risk-based clinical studies on Glo, Vuse, and VELO. We assessed the risk profile of the smokeless products using a series of biomarkers of potential harm, biochemical indicators that can assess if a disease-relevant change is occurring when a smoker switches to a smokeless product. In each of the studies, we observed favourable biomarker changes for smokers completely switching to smokeless products, and importantly, the changes were comparable to quitting.

At the heart of tobacco harm reduction is the product risk continuum model. With cigarettes at the higher risk extreme and cessation at the lower risk extreme. Researchers have used published science to discuss the relative risks of smokeless products and have concluded that smokeless products have a substantially lower risk profile than smoking. Again, you may be thinking this is just a nice collection of scientific theses and studies...but what's actually happening in the real world?

To observe the impact of tobacco harm reduction globally, we look at smoking prevalence as smokeless products only really came into prominence in the early 2010s. We can use this date as an inflection point. Let's deep dive into some countries to get some more specificity. Japan has observed a reduction of 29% in smoking and is now a prevalence of 15% facilitated by Heated Products. New Zealand has observed a reduction of 53% in smoking over the last decade and now has a prevalence of 8% facilitated by Vapour products. In the USA, we have observed a reduction of 39% in smoking and is now a prevalence of 11% facilitated by Vapour and oral nicotine products.

And finally, here in the UK, we've observed a reduction of 32% in smoking and now have a prevalence of 13% facilitated by Vapour and oral nicotine products. Now, this group of markets is illustrative of the potential of tobacco harm reduction globally and should signal a huge opportunity for all markets globally and is also illustrative of the

importance of a multi-category strategy for achieving tobacco harm reduction on a global scale.

To take this a step further, there is a live example today of tobacco harm reduction in action in Sweden. In Sweden, an oral tobacco product called Snus was introduced with significantly lower levels of toxic chemicals than cigarette smoke. Over the last decades, Swedish tobacco users switched from smoking to using Snus and other smokeless products like Modern Oral. Today, Sweden has the lowest smoking incidences in the EU of 5.6%, close to the WHO's definition of non-smoking of 5%. And as a result, Sweden has the lowest levels of smoking-related morbidity and mortality across the EU, while at the same time having the same tobacco product usage per capita. Importantly, this beneficial health outcome did not come at the expense of any new cancer risks, as the combined lung, lip and oral cancer risks in Sweden are also the lowest in the EU.

Now, the unfortunate reality is that Snus, outside of Sweden, is banned in the EU. So a question arises, what if every country in the EU had embraced tobacco harm reduction like Sweden?

Well, a group of international scientists recently published data based on systems dynamic population modelling to answer this question, and they concluded that if Swedish tobacco-related mortality rates were replicated in other countries, more than 3.5 million lives could be saved in the EU alone over the next decade.

A final critical point is the polarised debate around tobacco harm reduction, with proponents calling for its adoption by stakeholders and opponents arguing it has no role to play in the public health strategy in tobacco. Exploring two significant themes on the risk profile of smokeless products and the safety profile of nicotine, I wanted to illustrate both sides of the debate. On the risk profile of smokeless products, the FDA have communicated that we do know e-cigarettes as a general class have markedly less risk than a combustible cigarette. And on the safety profile of nicotine, our very own NHS has stated that although nicotine is addictive, it is relatively harmless to health.

It's important to show balance and illustrate the alternative viewpoints that exist in the public domain. Many stakeholders have stated their concerns with smokeless products in terms of youth access, flavours, and gateway effect amongst others. But moving forward, we must create an environment where all stakeholder views are considered, and evidence-based conclusions are provided on tobacco harm reduction.

As Kingsley mentioned, we recently launched the Omni as we truly believe the data exists to place tobacco harm reduction as a central part to the public health strategy in tobacco. We've taken data from our 82 markets where we sell smokeless products, our 265 published papers on smokeless science, over 8,200 granted patents. And importantly, we have included more science from external sources than our own, with

614 external published articles. The Omni is live, and we've begun amplifying and engaging our THR manifesto, of both scientific and regulatory meetings across the world from Asia through to Europe. It has already prompted significant new interest in tobacco harm reduction and has surpassed our initial expectations in terms of stakeholder reactions. We hope this will be a significant live resource used by all stakeholders and we want them to review the evidence and join the conversation.

So, thank you very much and I would like to hand over to my colleague Flora to update us on the regulatory environment of smokeless products.

Flora Okereke, Group Head of Global Policy

Thank you for that.

My name is Flora Okereke, and I am the group's Head of Global Policy.

Regulation does matter, and it confers on us our license to operate. When constructed well, it underpins our ability to transform and grow. We have significant experience and capabilities in this area built over decades and continues to evolve under the new leadership. Regulation can be an enabler or a destructor. A policy framework that enables smokeless products to realise their full commercial potential and societal benefits is both necessary and achievable... And this is why we are driving for a sustainable, progressive policy today and in the future. A well-regulated market is a sustainable market, not just for our consumers and society, but also for our company and our investors. So, how do we manage regulation in BAT?

Allow me to elaborate a little bit on our approach. It is our principles, our process and capabilities, our structure, and our new approach to proactive external communication. We have created a framework to support the development of smart regulation as indicated in the slide that you see. Our approach to regulation is founded on these principles that we believe should be applied to smokeless products. They are clear, consistently applied, and as Kingsley mentioned, they underpin our regulatory engagement across all our categories.

Our second key enabler is our process and world-class capabilities that we are fine-tuning. These include early detection of regulatory developments, long-term scenario planning, building responsible regulatory positions based on scientific evidence, continuous stakeholder engagement and plans to engage to ensure regulatory readiness. We track globally on a market-by-market basis, the progress we are making, the opportunities, the risks, enabling prioritisation and focus of our resources.

In combination, we're ensuring our teams have the knowledge and capabilities to engage to help to secure our preferred regulatory outcomes. It means that the regulations we hope to shape today not only contribute to tobacco harm reduction, but it will enable the business that we want tomorrow.

Thirdly, our organisational structure. Last year, we established a standalone function dedicated to shaping the regulatory landscape, investing in multi-disciplinary teams across all our key jurisdictions, with the singular focus of making sure that our ambition to achieve a smokeless world becomes a reality. And beyond regulation, we have strong capability on scientific affairs, fiscal management, trade engagement, and a new policy unit which is mobilised behind an integrated strategic agenda.

Fourthly, we've made a step change in our approach to strategic communication. Adopting a more front-footed and you might say vocal approach, we are clear that for a smokeless world to become a reality, we need to be thought leaders in the public debate. At times, that may mean being provocative, whilst being clear on the need for responsible and enforced regulation.

Our story is increasingly resonating and also reaching the intended audience. And we are seeing important progress in key areas. In a short period of time, the smokeless category has achieved regulatory recognition across many markets. For example, in a comparatively short period, Modern Oral has gone from a product with little regulatory basis, to 13 countries with specific Modern Oral regulation, four countries with technical standards including minimum age requirements, risk proportionate excise and nicotine limits. It is all starting to build the ground for a sustainable future for that category.

Another very good example of important progress being made is in Vapour, which is now legal in 89% of our tracked markets, with 75% of this market having specific Vapour regulation and more continue to come up. So, there is evidence of progress and there is more to come. We heard from Kingsley that smokeless products require a regulatory framework underpinned by tobacco harm reduction and meaningful enforcement, and we have seen some instructive examples of tangible outcomes in pioneering markets.

New Zealand is a prime example. In New Zealand, with progressive balanced regulation that addresses underage access and appeal, vaping has gone down very fast. Vaping has grown very fast and we believe has contributed to 40% decline in smoking rates over the period of 2019 to 2023, down to 8.3% of the population. Now, this is tobacco harm reduction in action. It is a role model for other countries. It demonstrates that a smoking-free future is possible with the right regulation.

After Sweden, New Zealand is on track to become the next smoke-free nation as per the WHO's criteria. That is a good outcome and an example of whole-of-society solution. However, elsewhere we have many examples where regulatory frameworks have been adopted, but not based on tobacco harm reduction, and fail. New Zealand's neighbour, Australia, stands in stark contrast, a de facto New Categories prohibition, restrictive legislation, where to this day vapes can only be bought in pharmacy. It has resulted in 90% of the vaping market being illicit. And these unregulated illicit products are often

irresponsibly sold without meeting the necessary consumer's safety standards. And in Australia, as you can see on that graph, smoking has barely declined. Illicit products are rampant across categories everywhere, whilst intended public health benefits remain unachieved.

Beyond Australia, there are many large markets where smokeless products are not yet legal. There remain an estimated 200 million smokers, excluding India, who do not have access to legal smokeless alternatives. For example, Brazil and Turkey are two significant markets which are swamped with unregulated illicit products. So, we are engaging with regulators and all the stakeholders to share the science that underpins tobacco harm reduction. We see this as an opportunity to deliver multi-stakeholder value, driving public health benefits and ensuring long-term quality growth.

So, importantly, we are listening to societal concerns. We understand them and we are taking meaningful action, whilst doing all we can to help enable a sustainable regulatory outlook with an end goal to enable our products to compete responsibly across a level playing field. It is critical that we proactively address societal concerns around vaping, including concerns about underage access and appeal, safety, and environmental sustainability. And we are demonstrating thought leadership in this category, applying new technology and standards.

Earlier this month, we launched our group Vapour position statement. This sets out our commitments to responsible product standards, meaningfully addressing societal concerns around vaping. We have set out clear ambitions for our own portfolio in terms of adults-oriented favours, factual style, descriptors, age verification technology, and removable batteries. Targets like these demonstrate our commitments to taking product stewardship, consumer safety, underage appeal, and access issues very seriously. Our end goal is to assist the regulator in framing smarter regulation that addresses unintended consequences with appropriate solutions and demonstrate that a responsible marketplace is possible. We believe that a policy framework can deliver tobacco harm reduction, enabling smokeless products to realise their full commercial potential through ensuring a level playing field and addressing societal concerns.

And that is what we call a sustainable future. Not only do we believe that this is necessary, we also believe that it is achievable and that is why we are working very hard, very hard indeed, to make sustainable regulation a reality. Yes, a reality.

I will now pass back to Kingsley to wrap up this session. Thank you very much.

Kingsley Wheaton, Chief Corporate Officer

Thank you, Flora. And thank you, James, for a fantastic and I think thought-provoking view of our science, approach, and regulatory thinking. Bringing this all together, it's clear that the interconnections between science, tobacco harm reduction acceptance, regulation, and our sustainable future are complex. However, we are determined at BAT to master that joined-up capability. And as I reflected earlier, the stakes are high. Never has it been so important that BAT and our industry get this right. That's why we've taken the last half hour to underline our commitment to connecting science, corporate, and regulatory affairs towards a sustainable future. And we are neither naive, nor do we misunderstand the unenviable choice that policymakers face. Act now and aim for potentially substantial pre-emptive public health benefit, or wait and see. At BAT we argue for the former.

Our first clear priority is to shift societal and stakeholder perception of THR. And that is why we created Omni. For the first time, bringing together in one place the evidence and thinking we have amassed on how to deliver a smokeless world. And that is a big step forward both for BAT and the industry.

And I must say I've been taken aback by the reaction, the new engagement possibilities, and the outreach opportunities Omni has yielded. To give an example, this has burnished our employer value proposition credentials. Candidates and search partners are spontaneously mentioning the Omni as one more comprehensive reason to believe in our story.

Hope you've had the chance to visit Omni live and chat to the very passionate and determined BAT leaders who played a pivotal role in showcasing the Omni today. Think of Omni if you like, as our BAT manifesto, and actually it is much more than that. Omni is both a noun, the platform itself, and it is a verb. It's the arrowhead for our revitalized front-footed strategic communication approach. So, please do review the evidence and join the conversation.

Quick plug here at asmokelessworld.com, at our X handle [@smokelessworld](https://twitter.com/smokelessworld) or by scanning the QR codes that are around the room in various places. The Omni was launched less than a month ago, and its impact is already being felt around the globe, as James said, from Japan to Romania, to Greece, to Canada and beyond. And the best way that we can bring that alive for you is to take you back to Illuminate on September the 17th and open our doors to the launch event itself. Thank you very much for listening. Please run the video.

Cora Koppe-Stahrenberg, Chief People Officer

Good afternoon. Transforming our business will not be possible without a transformation of our culture. I'm Cora Koppe-Stahrenberg, BAT's Chief People Officer, and over the next 15 minutes, I will tell you more about the culture transformation journey that we are on. But before I do this, just a little info about myself. I've joined the company one year ago. Before BAT, I spent seven years with Fresenius Medical Care, a global healthcare and med tech company, as their Global Head of HR. Prior to that, I spent most of my career in financial services in various international HR leadership roles, including 11 years with General Electric.

Why did I join BAT? Because I like to drive change and make an impact. Joining a business in transformation with the need for culture transformation, a new CEO who is driving this, and a leadership team that stands fully behind this, is just perfect for that.

So, where are we on our culture transformation journey? We have laid the foundations, and we are already progressing well, and we have tangible progress to show. Our culture transformation is designed to enable our purpose of a better tomorrow. There are two foundations for this: our company values and a clear people strategy for the organisation. Why? Because strategy is executed by people. They are main differentiator for business success. That also means having a modern, agile, and inclusive culture is a key enabler for us. Let me explain this in more detail.

Starting with our first foundation, we wanted to make sure that we align our cultural identity with our strategic ambition of creating an exciting and winning company. And it became clear that we needed to refresh our company values if we wanted to achieve this. The intent was to define values that are relatable and easy to understand and that represent a good balance of how we want to be seen externally and how it should feel internally. This was a joint effort together with over 2000 employees. The result is the set of six values you see on this slide. They're intentionally formulated as actionable statements: "Truly inclusive. Do the right thing. Love our consumer. Stronger together. Empowered with trust. And a clear passion to win." Together with a brief description for each, they were officially launched in February of this year. They are our core DNA and frame of reference.

That also means they guide our decisions and shape our actions every single day for everyone. The changes we already see are manyfold, ranging from how we interact and communicate, to amending our processes. For example, Tadeu has a regular Q&A session called Let's Talk with all of our 46,000 employees where he answers any questions, live and unscripted. These sessions are extremely popular. And on the other end of the spectrum, we have introduced mandatory performance objectives for "Do the Right Thing" and "Truly inclusive." A survey that we conducted recently shows that the values have been well received. 94% of our employees strongly support them, with 87% telling us that we already are consistently demonstrating them. But we also still have room to grow, especially when it comes to "Empower through trust."

So, let's look at the second foundation, our people strategy. Our 2030 People Strategy has been defined earlier this year and is essential to our future success. It is called people strategy and not HR strategy for a reason. It is broader than HR processes only. It also focuses on how our business strategy will be enabled from a people perspective and how we build and maintain effective relationships with our employees. It ensures that we attract, retain, and engage the talent that we need to deliver on our promises. To achieve this, our people ambition has been defined very clearly. We want to enable tomorrow's success, create an amazing people experience, and make BAT the place to be.

Around this ambition, five strategic intentions are breaking this down further. But instead of talking you through these theoretically, let me show you some key actions and progress on how we are working towards achieving this ambition and how we are measuring success. To engage external candidates in our Building a Better Tomorrow purpose, we created the Be the Change campaign a few years back already, which has produced tangible results. We are seeing a clear increase in the percentage of candidates who are aware of BAT and in the percentage of candidates who would consider joining us. This is great news as this directly and positively impacts our external talent pipeline. And to maintain this momentum, we are currently updating our campaign to align it even closer with our strategy.

We can also see that our external audience is engaging quite actively on LinkedIn, our main people-focused social media channel. We have a much higher engagement rate than a group of leading multinational companies that we compare ourselves against. And we have increased our followership over the past 12 months. All of this enables us to bring in new skills at all levels, from global graduates to senior hires. Our graduate program consistently attracts young talent. We are receiving on average 40,000 applications per year and are hiring around 250 global graduates each year. And at more senior levels, we are hiring from a whole range of industries and not just FMCG, which has been key for bringing in new capabilities. Zafar has shown you earlier which tech companies we have hired from to build out our R&D capabilities. And here are some further names of companies that are a source for our talent.

Overall, of the 1,400 senior hires in 2023, more than 600 brought in skills in areas such as innovation, analytics, digital or science. But we are not only relying on bringing in new capabilities from the outside. We are of course also focusing on our internal talent and skill development. We have always been investing in dedicated internal programs to further develop both functional and leadership capabilities. This is a long-term commitment and ensures we are well prepared to address current and future requirements. What I want to highlight here are newer, more specific global programs that we have launched more recently. Three of those in 2024. They address the specific skills that we need for our transformation in various areas, in operations, in marketing and science, but also in terms of leadership.

These global programs are complemented by many local learning and development programs. And this spread and synergy between global and local is very effective. Hence, it is also how we approach building a truly inclusive culture. We are absolutely committed to fostering a truly inclusive culture where every individual feels respected, valued and empowered. And if you remember our values, this is one of them. That also means we are constantly evolving how we drive this forward. We have very active employee resource groups and networks globally and locally.

The global ones are dedicated to our women and the LGBTQ+ community, and the local ones addressing specific needs and interests, some of which may become global over time. The newest additions are the executive network for women and the Adept network in the US. Adept represents individuals with specific neurological, mental or physical needs, or caretakers of people with these needs. In addition, we have enabling programs and initiatives. This includes our longstanding Women in Leadership training, mentoring programs, and a new series of inclusion workshops. Our benefits portfolio has an inclusion lens and we keep adding allyship guides, the latest one on gender transitioning. Inclusion is key for our identity, and it is also inclusion that drives diversity.

So where are we on our diversity journey? We track a variety of diversity metrics and I would like to share a few here to highlight our progress. Let's first look at gender diversity. Our efforts are paying off. Since 2020, we can see a tangible increase both in terms of percentage of women in management and in senior management roles, and we are progressing well towards our 2025 ambition. The gender diversity on our main board is already balanced, but we are also recognising that there's still room for improvement on the management board. As diversity has many facets, we are also tracking the mix of our key leadership in terms of nationality and ethnicity. As a responsible employer, a specific area of inclusion is also our focus on fair pay.

We hold three certifications in this area. We are certified as a Fair Pay Workplace from a gender perspective globally and from an ethnicity perspective in the UK and six further markets. We are the only FTSE 30 company that has received these certifications. And if you wonder what we mean when we say fairly, men and women in BAT are paid within 1% of each other for doing the same work or work of equal value. The same applies for ethnically diverse and non-diverse groups. We have also undergone a rigorous assessment and have been certified as a Global Living Wage Employer. Only five companies in the FTSE 30 hold this certification. In addition, we are voluntarily disclosing pay gap related data.

We are very proud of these certifications, but if we want to continuously evolve inclusion and diversity, we need to listen to our employees. One of the most important ways we track our progress in our cultural transformation is through employee feedback and an ongoing dialogue. As of this year, we have changed from the classic long employee survey conducted every two years, to having shorter more frequent surveys, focus group

and sentiment checks. These cover a variety of topics and allow us to gather qualitative and quantitative input more often. This enables us, the company and every single manager, to respond more immediately to any issues that may need to be addressed. As part of this change, we are also now measuring the engagement of our employees on an annual basis instead of every two years only.

Why is this important? Various studies, for example by Gallup, confirm that there is a high correlation between the level of engagement of employees and business performance. Therefore, it is no surprise that our primary measure of success for our people ambition, which I showed earlier, is the engagement index. This index evaluates how deeply employees are connected with the organisation. It assesses their commitment to achieving goals, how enabled they feel to deliver and how energised they are. Our most recent Your Voice survey in September 2024, so literally just a few weeks ago, came back with an engagement index of 84%. This is not only really high, it is 4% higher than last year and also 4% above the FMCG norm. It is a clear sign that our culture transformation is gaining momentum. But let's double check this against the external perspective.

Our achievements in terms of workplace culture are also recognised externally. We are very proud to have been named Global Top Employer for the seventh consecutive year across six regions and 36 countries. China is the latest addition to this list. There are 2,300 certified top employers, but only 16 companies are a Global Top Employer. That means being certified in the headquarters country and a minimum number of regions and countries. BAT is one of these 16 companies. We have also been recognised as a great place to work locally in 16 markets from the US to South Korea. Other recognitions and certifications we have received underscore that we are enabling an inclusive workplace, for example, focused on race or disability. These awards and recognitions make us confident that we are on the right path.

In conclusion, let me emphasize again that our 46,000 exceptional people are central to our culture transformation, and it is well underway. We have a highly engaged and committed workforce and our refreshed values are being embedded effectively serving as our yardstick. Our employer value proposition is attracting talent from outside, and we are deeply invested in developing both current and future capabilities. And we are making tangible progress in advancing our inclusion and diversity agenda. All working towards one goal, driving a culture transformation that enables an exciting and winning company for a better tomorrow. Let me close with a video about our culture and our values and then after that, Soraya will pick up from here at around 4 pm, following a fifteen-minute coffee break. Thank you.

Soraya Benchikh, Chief Financial Officer

Good afternoon, everyone. It's a pleasure to be here with you today at our Capital Markets Day as CFO of BAT. And let me start by saying that I truly enjoyed meeting many of you last night over dinner and today during the breakout sessions. So far, you've just heard from our team about our vision to build a smokeless world and how we are going about it. This begins with a deep understanding of our consumers, as you heard from Julian earlier. You also heard from Zafar on our differentiated R&D and innovation ecosystem. And from Luciano how both help us build our brands. All of this is underpinned by strong science, as presented by James, and proactively navigating our regulatory environment, as explained by Flora, to fuel our transformation. Now this along with our uniquely talented team that you heard from Cora and the more agile and dynamic organization gives us the confidence to deliver on our ambitions. And I absolutely share the passion and conviction that you heard from Tadeu and the team all day today.

Now I want to share with you how our strategy creates shareholder value. Let me start by outlining my key focus areas. First, we fuel our transformation by maximizing value from combustibles, using our scale and efficiencies to release cash. Next, we focus on deploying capital in a disciplined and targeted manner. Now this means investing wisely in the largest profit pools whilst maintaining a laser focus on return on investment. And as we move forward, our goal is to strengthen our financial position. And we will achieve this by reducing debt and thus strengthening our balance sheet, which will provide us with greater financial resilience.

At the same time, we will remain committed to a balanced capital allocation approach, which includes prioritizing our transformation, continuing to offer a progressive dividend, maintaining a sustainable share buyback program, all whilst exploring bolt-on acquisitions to accelerate our transformation. We will then drive performance by tracking key performance indicators, which will measure our success. And these KPIs will feed into our algorithm, helping us make the right decisions. With the ultimate goal of course being to maximize sustainable returns for our shareholders. And to illustrate how we will achieve these priorities, I'd like to walk you through our profit growth algorithm, which is built around five key pillars in this chart.

The first pillar is quality revenue growth. Now our multi-category approach and global footprint are critical drivers of this. We continue to maximize the value from combustibles while driving strong growth in our New Categories through innovation and premiumization. The second pillar focuses on increasing our gross profit pool. Here we see opportunities through revenue growth management and increasing scale and New Categories which help us optimize our cost of sales. These will deliver around £2 billion additional cumulative savings by 2030. The third pillar is about accelerating the contribution from New Categories. Where being choiceful and investing in the right categories and the largest profit pools along with smarter investment enabled by sharp monitoring on spend effectiveness will help us realize the significant opportunity.

The fourth pillar is driving profitability through an increasingly agile organization. With continued disciplined cost management and increasing productivity through opportunities to optimize our footprint. And the fifth and final pillar is about releasing cash. And we do so through consistent high cash conversion. We aim to deliver significant free cash flow, in fact in excess of £50 billion by 2030. Which allows us to reinvest in our transformation whilst also providing attractive returns for our shareholders. Together these five pillars form our growth algorithm, delivering in the midterm 3% to 5% revenue growth and 4% to 6% APFO growth. I will now go into each one in more detail starting with quality revenue growth.

Let's begin with the combustible part of quality revenue growth pillar. For the midterm, we expect this to deliver low single-digit growth. As you saw in Vincent's presentation earlier, over the last four years, we've achieved 1.3% average growth. This was driven by a 3.7% volume decline, fully offset by a 5% price mix improvement. Now looking ahead, we anticipate volume declines of 3% to 4% in line with the industry. Which will be wholly offset by a price mix of 4% to 5% resulting in low single-digit revenue growth for combustibles. This is driven by BAT's diverse geographic footprint and disciplined revenue growth management across both developed and emerging markets.

Now on to the second part, our high growth New Categories. These have been a key growth driver and will continue to be as we invest and innovate behind them. Growth will come from both volume and price mix improvements. In the coming months, as you heard from Luciano earlier today and saw in the presentations and exhibitions, we're launching premium innovations across all three categories. This will drive volume through more competitive products in fast-growing categories and enhance price mix through premiumization and category mix. So in short, combining combustibles and New Categories, we expect total revenue growth of 3% to 5% from 2026.

Now let's move on to the second part of our algorithm, gross profit expansion. This is mainly driven by New Categories where we've seen significant improvement over the past four years and expect more growth ahead. Combustibles have also been resilient, have shown resilient gross profit performance through portfolio optimization, pricing and efficiencies. And we will continue to focus on these. The biggest gains, however, will come from New Categories. Double-digit revenue growth will drive scale leading to rapid gross profit expansion. And in addition to scale, revenue growth management and cost of sales optimization will expand margins and drive further profit growth. As mentioned earlier, cost of sales optimization will continue to be crucial. BAT has a strong history of delivering cost of sales productivity. We initially committed to £1 billion in cost of sales savings between '23 and '25. And having delivered nearly 500 million in 2023, we're ahead of schedule. We are now confident we can exceed the target and deliver 1.2 billion by 2025.

Looking beyond 2025, there's further potential to simplify combustibles and drive scale

benefits in New Categories to deliver around £2 billion additional savings by 2030. As Tadeu has shown, our progress in transforming our business is clear. This is demonstrated in these five key markets on the chart here in Europe. Where we've not only shown that we can grow New Categories revenue, but also made the transformation profit accretive. These markets also highlight the strength of our multi-category strategy. As you can see, Italy is led by Headed Products, whereas France is led by Vapour. Poland and Czech are driven by multi-category approaches. And Sweden is led by Modern Oral. The transformation is working. New Categories are more than offsetting the decline in combustibles and they are further driving superior profit growth. In fact, in some markets we've achieved profitability levels that wouldn't have been possible with combustibles alone.

The significant growth in New Categories gross profit has required investment, which brings us to the third pillar of our algorithm, new category contributions supported by smarter reinvestments. Now we continue to invest in our transformation, but as New Categories grow, we are becoming more strategic. By focusing on the right categories and key growth areas, continuously evaluating spend effectiveness to maximize returns and applying tighter financial discipline to free up more resources for growth and incremental profit. This will accelerate our growth and our reinvestment rate will continue to improve. Our smart and targeted reinvestment has accelerated new category contributions. We achieved new category breakeven two years ahead of schedule. And by H1 2024, new category contribution had already reached 8%, as we announced in our first half results. Looking ahead as our business scales, we expect New Categories to continue to play a significant role in profitability. And we anticipate continued improvement to contribute to our midterm guidance.

The fourth pillar of our algorithm focuses on profit growth, and one of the key drivers is overheads management. Over the past four years, we've kept overheads flat in absolute terms, despite around 20% cumulative inflation. This has allowed us to offset a 300-million-pound cost headwind. And looking ahead, we remain committed to disciplined cost management with overheads expected to stay around 7% of revenue. And we'll continue exploring opportunities to optimize our footprint to further release cash. So bringing together the first four parts of our algorithm, we have achieved 4.5% compound profit growth over the last four years. By 2026, we expect to return to growth levels of 4% to 6% with a transformed business. As announced this morning, we are confirming our 2024 guidance. For 2025, we are confident of making progress towards 4% to 6% growth. And although the trajectory may not be linear, we do expect to see acceleration by the end of 2025, driven by the benefits of new category launches, acceleration in Modern Oral, and potential increased enforcement in the US.

Now turning to the fifth part of our algorithm, cash delivery. Here we have a very strong track record achieving over 100% cash conversion in the past five years. And we've kept capex at or below depreciation. And expect this to continue by optimizing our footprint in combustibles and leveraging our R&D partnerships, which you saw earlier, while selectively building our own capabilities. We've also made significant progress reducing

working capital and combustibles, driving £1 billion of additional cash from leaf and supply chains through inventory optimization since 2019. Looking ahead, while New Categories currently require incremental working capital to combustibles, my focus as CFO is to identify inefficiencies and reduce cash demands in New Categories to boost cash flow. While 2024 and 2025 cash generation will be impacted by FX headwinds, FIGLO repayments, and potential settlement payments such as Canada. Beyond that, we expect BAT to generate over £8 billion of free cash flow annually growing at least in line with profits.

Our strong cash delivery has allowed us to reduce leverage from four times to close to our target range of two to two and a half by the end of 2024. To return over £30 billion to investors over the last six years. Since the Reynolds acquisition, we have shown that we can fund transformation, de-lever and pay down debt, and return significant capital to shareholders through dividends and buybacks. And this brings me to our capital allocations priorities. Our capital allocation strategy focuses on enhancing financial flexibility. We expect to generate over £50 billion worth of free cash flow by 2030. Our top priority is always investing in our transformation, albeit with increased discipline. And we will continue reviewing our footprint to create additional flexibility. While also delivering attractive returns through a progressive dividend, deleveraging to remain comfortably within the two to two and a half leverage range. And thus, strengthening our financial position. And with a stronger balance sheet, we will selectively pursue bolt-on acquisitions to accelerate our transformation while remaining committed to a sustainable share buyback program to further enhance shareholder returns. Lastly, as I mentioned in my introduction, we will drive performance using KPIs to track our journey. These KPIs monitor our progress across each pillar of the growth algorithms. The slide shows the key metrics I'm focused on to evaluate the pace and success of our transformation, and those are the ones we will hold the business accountable to. Dashboards are being deployed across all business units to support decision-making and ensure that we create shareholder value throughout the group. And we will keep the market updated on these KPIs annually so you too can join us on the journey.

In summary, this is how our strategy translates into shareholder value creation. We begin by fuelling our transformation through driving value from combustibles and continuing to leverage efficiencies to maximize cash release from the business. We will then deploy capital in a targeted manner into the largest new category profit pools with laser focus on return on investment, resulting in greater financial flexibility and balanced capital allocation, and all of this with the ultimate goal to maximize sustainable shareholder returns. Thank you for listening. I will now ask Cora, Tadeu, Kingsley and James to join me on the stage for the Q&A which Victoria will host.

Victoria Buxton, Group Head of Investor Relations

Thank you, Soraya. We'll now start our second Q&A session of the day for our afternoon presenters. As before, if you have a question in the room, then please raise your hand and someone will approach you with a microphone. Gaurav.

Gaurav Jain, sell-side analyst, Barclays

Thank you for the presentation. So just on NGP targets, like earlier, BAT used to have some targets on NGPs like five billion pound in revenue, which was revised multiple times, and your peers have some targets either on profitability or units or revenue share from NGPs, but you're removed on any of those targets, so how should investors evaluate your NGP progress and all the launches that we are talking of today? So how should we evaluate whether Glo is a success or not, or Vuse and Velo they are successes or not?

Tadeu Marroco, Chief Executive

Look, I don't think that the absolute revenue tie is the right one to make a full assessment and the metrics that Soraya is bringing and just demonstrate in the slide, I think that is the right one. Remember that the quality growth pillar is about balancing top line and bottom line. So we want to grow, but we want to grow with quality. We want to make sure that the top line flows through the bottom line, and I think that's the best way to measure that. There is still a lot of volatility out there for us should be willing to put a very strong cash or solid target.

We note that US Vapour market, that was growing substantially until 18 months ago, stalled completely the market even going backwards. And this is one of the reasons why we had to review the target of five billion. Like I said before, for sure we had to exit Russia as well. That was not helpful, and so on and so forth. But these are, for me, more importantly is the progress that we can make in terms of those underlying indicators of efficiencies and returns that Soraya was referring to. We are not putting hard targets on that, but we expect progress to be seen over time. I don't know Soraya if you want to complement.

Soraya Benchikh, Chief Financial Officer

Absolutely. I think we've designed the KPIs in such a way and given you visibility to really be able to measure the transformation and particularly on smart reinvestment, looking at return on investment and really making a very choiceful deployment of capital across the group. I think, the first few years, we were getting scale in our New Categories business and now we're becoming a lot more choiceful and really evaluating where we deploy the capital in the group. And we feel that this dashboard will really give you a good measure of what our progress is rather than aiming just towards one target. You'll have good visibility, whether we're accreting our margin, whether we're growing the top

line, you will see the bottom line as well in how we're making the choiceful investments and how we're measuring our spend effectiveness, which helps us to better deploy our capital.

Gaurav Jain, sell-side analyst, Barclays

Sure. Thank you. And then a follow-up question on share repurchases, which is a key topic for investors. So, there's 700 million this year, 900 million next year, which is funded by the ITC sale, now the stake sell in ITC. Now ITC, I think they are going to spin out their hotels very soon and you would have a direct investment in the ITC Hotels company. So, would you be looking to sell that and return that part of cash to shareholders?

Tadeu Marroco, Chief Executive

Well look, ITC Hotels, definitely there is no intention for us to be shareholders in hotels in India. Let's be very clear. So, whenever we believe there is the right timing, we're going to sell it. The way we're going to deploy, this is part of the structure that Soraya was referring to. We need to create financial flexibility. Financial flexibility means getting us to the point where we have the leverage within two and a half and two times and also making sure that we have generated cash enough to continue the sustainable buy-back program like we refer to.

Just on ITC, because I receive a lot of questions on ITC, there is a lot of moving parts in ITC, and India, as a market, is quite unique. If you take into consideration, for example, the demographics, the potential of GDP per capita growth, every type of metric that indicates future potential growth prospect, is there. It's quite unique in that sense. So, it's a very exciting market to be associated with. And on top of that, we have an associate there, which is a very well run, very successful company that performs at a pace of growth that is even much higher than the average of BAT. So, we are quite happy with the shareholding we have in ITC. And we have to be mindful that there is a foreign direct investment ban in India, which means that if you sell, you don't come back.

And we do believe that there is potential for a new category growth in the future in India as well. We spoke about that. One of the key markets that we still don't have any access to, parts of Brazil, Turkey, and also India. Modern Oral in particular is quite exciting because there is already an oral tradition. Consumption of oral in India volume-wise is higher than the whole ex-India consumption. It's as simple as that. So, the size of the oral consumption in India is bigger than the size of all the US added to Nordics and all the other markets where we have consumption of oral today.

And we do believe that with the right approach in terms of science evidence-based, we have something that could be quite powerful in India. Because one of the issues in India is not actually lung cancer because the incidence of smoking in India is very low, it's actually oral cancer because of the products that are consumed there. And you just saw from James's presentation the profile of Modern Oral is minimal in terms of risks. So, we

have to be mindful on that. Now, saying all that, this is the largest asset in our balance sheet, and being so, ITC today, I think that adds up to £15/13 billion after the acquisition, and being so it is natural that the main board will be constantly reviewing the best way to deploy the assets that we have there.

But we also need to be mindful, like I said several times before, that to unlock the shares in ITC is not as straightforward as one could think because the central bank in India, to certify the sales, they require us to prove all the history of the shareholding that dates back to the 1930s, and we have to collect board meetings and all that every time we have a bonus split and all that. So, it's a very cumbersome process to go through, and we are working, like I said before, with ITC to unlock this share and having the financial flexibility for the future. I'm not being dogmatic about ITC, but I'm just trying to put into perspective and from one side the attractiveness of the market, the fact that ITC is a fantastic company, from the other side, a very large stake for BAT and an important asset to keep financial flexibility for the group, underpinning all that, our efforts to get with ITC to unlock the shares.

Gaurav Jain, sell-side analyst, Barclays

Thank you so much.

Faham Baig, sell-side analyst, UBS

Hi. Faham Baig, UBS. Thanks for the presentations from me as well. I want to come back to the medium-term algorithm. So, I guess previously you've spoken about the US returning to a 5-7% volume decline industry. Let's hypothetically assume that it's more like 7-9% instead of 5-7%. Do you think you have sufficient levers in the US in that situation, be it pricing and outside of the US to, in that scenario, still deliver mid-single-digit operating profit growth by '26?

Soraya Benchikh, Chief Financial Officer

I think Tadeu spoke about the white spaces and the different opportunities that we have across all the New Categories. And I think, basically, when we look at the mid-term algorithm, there's a number of assumptions, not everything has to go right, but a few things can offset an accelerated decline in combustibles. So, to answer your question, I think there's a number of things that could all go right and then we would have a very good year in the US. But we're basically assuming, and I think I qualified, or I mentioned we're assuming success of Modern Oral, a level of enforcement, small level of enforcement, and the decline normalizing. So, what we're counting on is some of these going right. So, it's very, very difficult to predict going forward, but that's what the mid-term algorithm is really based on. I don't know if you want to add to that.

Tadeu Marroco, Chief Executive

The only point that I would add, like Soraya reinforced now, we just need low-single-digit

coming from combustibles. The zero to two is what we need worldwide. And that's one of the elements about my opening was about the resilience of this business. And we have seen that. If you look back the last four years, we had a stellar performance in the US in the 2000, 2001, offsetting a massive disruption caused by COVID, mainly emerging markets in the likes of Pakistan, Bangladesh, Sri Lanka. South Africa, we couldn't sell one stick of cigarette for six months in 2020. And now, more recently, '23, '22, is exactly the opposite, the rest of the world growing strongly and the US with all the points that we raised in the morning with the macroeconomics are now suffering big time.

So that's the beauty about the resilience in the global footprint of BAT. So overall, all that, what we need is between zero and two, because the rest will come from the New Categories and the linking with what you would expect to achieve in New Categories, we said double-digit growth in revenue. If you have the double-digit growth in your categories with the right approach in terms of efficiency, return of investment, focused investment, target investments, we get to where we need to deliver the mid-single term algorithm.

Faham Baig, sell-side analyst, UBS

A quick second question. You mentioned bolt-on M&A. What in your portfolio are you particularly wanting to expand into? Where do you want to potentially do M&A?

Soraya Benchikh, Chief Financial Officer

We're always exploring opportunities to accelerate our transformation. David spoke earlier about Velo Plus, and that was as a result of an M&A. We're always looking at opportunities, be it in Beyond Nicotine or in our main categories to accelerate the transformation. They still remain smaller in size and that's what I mean by bolt-on M&A. But I'm really referring to the recent deals that we would've done be it, as I said, in Beyond Nicotine or the main categories, and we're always in the market and scouting for more opportunities.

Faham Baig, sell-side analyst, UBS

Thanks.

Victoria Buxton, Group Head of Investor Relations

Simon.

Simon Hales, sell-side analyst

Thank you. You're clearly on track, as you've said, to deliver your 2024 objectives. You're on track to get to hopefully your 2026 growth algorithm. If I just dive into the 2025 expectations in a bit more detail, I wonder if you could just talk a little bit more about

the drivers in COGS next year, particularly leaf, maybe transactional FX, which has clearly been a headwind for you in recent years. How do we think about those metrics? And then maybe associated with that for 2025, Soraya, you talked about non-linear progression towards those 2026 objectives next year. What do you mean by that? Should we be thinking about growth heading towards the 2026 levels in the second half? Is it a back end loaded comment that? Or am I reading too much into that?

Soraya Benchikh, Chief Financial Officer

First, let me deal with the transactional FX. This year we're facing a headwind of around 2% of transactional FX. When you look at our productivity savings of the headline that I gave of two billion, it's pretty much there. It's about 50/50 split between New Categories and combustibles in terms of our combustibles supply chain. And it's fairly evenly split throughout the years in terms of phasing.

When I talk about it being non-linear, I think the way to look at these three years, 2024, I think Tadeu labelled it as our investment year. Probably the best way to look at 2025, and I think you've seen, you've been exposed to all the innovations and all the plans that we have, I would really see it as a deployment year. So, when I talk about non-linear, in actual fact, when you're looking at everything that we're deploying, not all of it is going to be front ended, so it's going to be phased into the year. So that's what I mean really by non-linear, that we will make progress next year towards our mid-term algorithm, but it's not necessarily going to be a linear progress. I don't know if that answers it.

Victoria Buxton, Group Head of Investor Relations

Any further questions?

Priya Ohri-Gupta, sell-side analyst, Barclays

Thanks. Priya Ohri-Gupta at Barclays. Soraya, one for you just since we're talking about some of the aspirations that you've outlined for 2030. You guys have done a good job bringing your credit rating solidly to high BBB. You've tightened up your leverage target and reaffirmed a desire to be very comfortably within that range. But I guess as we look out over a five, six-year horizon, how do you think about the optimal credit rating for the company? Is it sticking with high BBB, or should we think about you potentially over time migrating into single A, just given some of the competitive dynamics that are out there?

Soraya Benchikh, Chief Financial Officer

BAT is, as you know, highly cash generative and I just spoke about generating in excess of 50 billion pound by 2030. I think given the sensitivities that we still have out there, Canada being one of them, we will continue to de-lever to be well within that range of two to two and a half. And I really think that, over the next few years, and as we get back

to our mid-term algorithm, we will be in a very comfortable leverage range. But that's really what we're aiming for is to be able to mitigate the uncertainties that we actually have out there that are still remaining to come.

Victoria Buxton, Group Head of Investor Relations

Any further questions from anyone? No? Well, I'd like to... Oh, sorry. Sorry.

Soraya Benchikh, Chief Financial Officer

Sorry, Gaurav.

Victoria Buxton, Group Head of Investor Relations

One more.

Gaurav Jain, sell-side analyst, Barclays

Thank you. So this question is for James. So, there's been a lot of discussion around poly-usage today. Now, we had an event with Brian King last week, and what he made clear is that what the FDA is looking for is complete switching and that's the bar that they use. So, if the product applications that you will submit will show poly-usage, do you think that they will meet the FDA bar, which they are trying to use for PMTA applications? And what Brian King kept saying is that the industry needs to step upon innovation...they're not doing a good enough job yet. So how do you respond to what the FDA is saying?

Dr. James Murphy, Director, Research and Science

We engage with the FDA on a periodic basis about the applications. Of course, we'd like to see solus use as quick as possible, but we have poly-use is typically transitory. It can take time, though. What I would like Brian King and other stakeholders to do is give much more effective communication to smokers, to users about the benefits of these products. And I think he'd see the acceleration from poly to solus use. So, I think that would be my message back to Dr. King.

Tadeu Marroco, Chief Executive

And just if I could just add to that, as much flexibility we have to innovate in the US, the higher likelihood to get more solus users, but the products get better as well, and the satisfaction gets better. And the situation that we have today in the US is that it's just preventing the US smokers to have access to the best that is out there. That's frustrating.

Victoria Buxton, Group Head of Investor Relations

Anyone else? No? Well, thank you very much everybody for listening. Thank you to the afternoon presenters for the second Q&A session. And if you have any further questions,

then obviously don't hesitate to contact the IR team. We're here to answer them for you. And for the delegates in the room, we'd be delighted if you would join us for drinks with the management board and our presenters from today after Tadeu's closing remarks.

Tadeu Marroco, Chief Executive

So, I hope you have enjoyed your day today and was enlightening to see the capabilities in the teams and the opportunity to engage in a broader scale with our expanded team here in Southampton. So, before I make my closing remarks, I want just to thank you all for your attendance today. It's very, very important for us to have you all here today, your attention, and also express my gratitude to all the people who work very hard to make this a successful event. So I hope that you found the day informative and that you agree with me now that you have seen the strategy, that we really have a strategy that is right, that we have a great team and a gifted team, actually very dedicated people that you meet today here and across the group as well is the same that will drive our transformation forward.

And before you leave, I want to emphasize some of the key takeaways from today. So, the first takeaway is that there are clear and compelling reasons to believe in BAT's future growth and sustainability. So, we are in a growing industry with a well-established, multi-category strategy, which give us a strong position to grow in all attractive value pools. We have dramatically improved our capability in consumer insights and foresights, and innovation. And we have built foundations for a future beyond nicotine. Our disciplined quality growth model is already delivering in Europe, and our investments in the US have set us up well for American business to be the cornerstone of our future growth. And we have the science capabilities to substantiate tobacco harm reduction and the front-footed approach to shaping our regulatory landscape. And of course, we are well on our way to setting the culture of the business to reset in this culture, in order to enable our world-class talent to deliver on our transformation.

So, in short, I'm confident that we have the right strategy, that we have the capability to execute and that we have the right people to deliver profitable transformation.

The second takeaway is that we have a disciplined medium-term financial algorithm to deliver on our guidance. We believe this will drive quality revenue growth, cost optimization, a smart reinvestment in all categories and also cash returns. And these will deliver upon our midterm algorithm of 3-5% revenue growth and 4-6% profit growth. And finally, with our strategy and disciplined financial algorithm, I believe we are very well-placed to deliver value to all our stakeholders.

More and more of our consumers will benefit from switching to potentially less harmful, smokeless products by 2030. Society in general will benefit as we reduce the harm of our business and move towards our aspiration to be a predominantly smokeless



business by 2035. Our investors will receive sustainable compounding returns underpinned by the algorithm. And our employees, the core reason for our success, will benefit as we transform our culture and make BAT the place to be. I'm excited about the future for BAT and I hope that you'll now understand the reasons for my belief and excitement. Thank you once again for your attention today. Thank you very much.

[end of transcript]