

Deutsche Bank Global Consumer Conference 2021

Presentation Script

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Presenters:

Kingsley Wheaton, Chief Marketing Officer

David O'Reilly, Director of Scientific Research

Jennie Galbraith, Head of Environment, Social and Governance

Kingsley Wheaton:

Hello everyone, I am Kingsley Wheaton, Chief Marketing Officer at BAT and I am here with David O'Reilly – Director of Scientific Research and Jennie Galbraith – our Head of ESG.

We are all delighted to be here to share with you how we are transforming BAT to create value for all our stakeholders.

Central to our transformation is our multi-category portfolio, which has significant potential to reduce harm and create value.

We are building consumer-led global brands: brands with purpose

These brands are founded on the strength and depth of BAT's:

Industry leading multi-category R&D and science

And our strong ESG foundations

Our purpose, A Better Tomorrow, is 'to reduce the health impact of our business'. We want to encourage smokers who would otherwise continue to smoke, to switch completely to scientifically-substantiated reduced risk alternatives. Given the health impact of cigarettes, that is the greatest contribution that we can make to society. And, in so doing, it will drive long-term, sustainable growth of our business. So, as we win, society wins

To succeed, we must deliver value to all of our stakeholders. BAT has a long track record of strength in ESG. It is already deeply embedded in our organisation and our people. DJSI inclusion over the last 19 years is recognition of our consistent performance – And we are proud that we are the only tobacco company in the World Index

We have set ourselves stretching targets

£5bn of New Category revenue by 2025

50 million consumers of non-combustible products by 2030
Scope 1 & 2 carbon neutrality by the same year, and Scope 3 by 2050
And a broad range of environmental targets by 2025

So, BAT is transforming. From a company that is growing revenue and value, yet with declining industry volumes and a harmful societal impact.

To a high growth, Multi-category, Brand led, Consumer Products company. Growing New Category volumes, revenue and value, Encouraging consumers of combustible products to switch and in so doing, reducing our impact on public health
The business of today defines itself not by the products we sell, but by the consumer needs we meet.

We have a unique consumer-centric, multi-category model. Led by the consumer, this model leverages our well-established. Strong consumer reach and global presence cross-category consumer insights, deep understanding of product satisfaction, detailed market opportunity mapping and increasing digital and technology savvy. These capabilities, taken together, give us a unique competitive advantage

We have clear priorities for each brand. Vuse's share momentum sets us on course to become the world's largest vapour brand, allied to a clear path to profitability. glo Hyper is our most successful tobacco heating product to date, closing the satisfaction gap with peers. We aim for glo to be the fastest growing THP brand.

Our leading Modern Oral products in Europe have global appeal. Whilst the Dryft acquisition has transformed our portfolio in the US. Again, our ambition is clear - Global Leadership with Velo.

Our strong global brands underpin our confidence in delivering shared stakeholder and shareholder value.

Post-COVID we expect constant currency

Revenue growth of 3-5%

EPS growth in high-single figures

Targets that work in tandem with our Non-combustible consumer, New Category Revenue and profitability ambitions. So, what is it that makes us confident in our delivery?

Our multi-category approach means that we are uniquely positioned

Not only does this give us the greatest potential reduce harm

But it also gives us the biggest opportunity to create sustainable, long-term value for our business and our stakeholders

So, why is that?

First, Consumers are not homogeneous, with different preferences by geography, and even across moods and moments, we see poly-usage between the New Categories

Second, cigarette taste strengths vary by country, meaning different cigarette alternatives will have different appeal to smokers in different countries

Lastly, the regulatory landscape is varied. Which affects which products are legal, our ability to communicate with consumers and excise levels.

This is why our strategy was built around a multi-category approach from the outset. To provide smokers the greatest opportunity to switch.

We offer the broadest range of reduced-risk tobacco and nicotine alternatives and therefore, we maximise:

- Our opportunity for harm reduction
- The commercial opportunities to drive growth
- And the highest resilience to regulatory shift

And this multi-category opportunity is very significant. In just 5 years New Category consumers have more than doubled, with industry revenue up strongly. And we expect further strong growth in the next 5 years and beyond

We are growing our share of that opportunity, from zero in 2015 to 17% today...with more to come. It is important to remember that with 1.1bn smokers globally, our £5bn revenue target for 2025 is just a milestone. We have a significant runway of growth for many years to come.

And that growth is accelerating. In the first quarter of this year we added another 1.4 million non-combustible product consumers, reaching nearly 15 million globally

The transformation of our business is clear. Around 15% of our revenue in developed markets already comes from reduced risk products. And over the last 3 years, our combustible volume has fallen by 13%, while still generating the value to provide the resources to invest in our transformation and deliver strong financial results

We are capitalising on our strong momentum by continuing to build global consumer-led brands with purpose. Our in depth consumer insights guide us as to why consumers move from cigarettes to New Categories

Three key consumer motivation areas account for most of the decision to switch:

- A satisfying consumer experience,
- Scientific substantiation of reduced risk
- And powerful, global, trusted brands that fit consumers' values

BAT is uniquely positioned to attract the greatest number of smokers. Our progressive approach to innovation ensures we are 'narrowing the compromise bridge' for those that make the switch to alternatives. Whilst we offer exciting brands with genuine purpose it's essential to have all three of these to create a fast-growing business which will ensure sustainable long term growth.

Our momentum in brand power is translating into strong share growth across all New Categories. As we announced in our pre-close statement today:

Vuse is growing share across all of its Top 5 markets
glo continues to build share in Japan, while glo Hyper is also seeing great traction in ENA – notably in Russia, Ukraine, Romania and Italy and
Velo is driving share growth in Modern Oral in the US as we roll out the products acquired through Dryft

Overall, our brands are getting stronger and stronger.
That's important because consumers interact with and buy brands – not platforms, categories or products This is evidenced by the increase in brand equity right across our portfolio and that reassures us that we are on the right pathway to create three leading global brands.

Vuse is one example of how we are driving our brand equity higher. Driven by award winning campaigns and digital engagement, we are building the leading and the most trusted vaping brand worldwide. And, as part of this, we are very proud that Vuse has been certified as the world's first global carbon neutral vapour brand.

For glo, the launch of Hyper has been our most successful to date due to our first-to-world induction heating technology. This technology has many advantages including a faster ramp up time, satisfaction and consumer control. It has allowed us to close the satisfaction gap with peers. And we continue to make excellent progress with our work to substantiate the reduced risk nature of glo, which Dr David O'Reilly will talk about in more detail

Meanwhile, the acquisition of Dryft has transformed our portfolio in the US modern oral market

With the enhanced Velo range now available nationwide. Our targeted marketing and consumer engagement activity has already driven Velo brand awareness to parity with the market leader

We are very excited about each of our three global brands, leading brands with genuine purpose, that will make a difference.

We are leveraging our world-class innovation capabilities. Over the last 7 years, we have already seen our devices and consumables transform, driven by consumer insights and continued investment behind science and R&D. One can only imagine what the new category offers will look like in 2025 and 2030, never mind beyond.

As we announced at our investor day in March last year, expansion beyond nicotine is the next logical step on our portfolio journey. We aim to meet unmet consumer needs with a portfolio of the future, that aligns with BAT's capability footprint.

As we explore beyond nicotine, we are building an ecosystem of new capabilities. Working within clear parameters, we are taking a collaborative, agile approach to minority stakes and partnerships and bolt on M&A.

B Tomorrow Ventures was established to explore and develop new science, technologies and capabilities, in nicotine and beyond and has completed 12 investments to date.

Earlier this year, we launched a pilot of our first CBD vaping product, Vuse CBD Zone, in Manchester, UK.

We also entered a strategic R&D collaboration with Organigram, a leading licensed Canadian cannabis producer, following an acquisition of 19.9% of the company. While it is early days in Beyond Nicotine, it has an exciting future, enabling revenue growth beyond reduced-risk tobacco and nicotine.

To conclude. The transformation at BAT is accelerating we are pivoting from a business that defines itself, not by the product it sells, but by the consumer needs that it meets. A transformation that is driven by new capabilities partnered with our core strengths. 21st century capabilities in brand building, route to consumer, technology, data, analytics and digital all play their role.

We are confident in delivering against our clear targets and transforming our business to build A Better Tomorrow. Our commitment to reducing the health impact of our business is core to our Purpose at BAT. And World class science underpins this commitment and Dr David O'Reilly will now take you through our work in more detail

Dr David O'Reilly:

With 1.1 billion people continuing to smoke globally despite the associated health risks. Tobacco Harm Reduction must continue to be a public health priority.

A key part of this is to ensure widespread understanding of where the harm associated with smoking comes from. Evidence shows that most of the harm is from the products of combustion, not nicotine.

Something that is recognised by the FDA and the Royal College of Physicians. For smokers who do not want to quit, nicotine delivered without combustion can significantly reduce risks and, as suggested by the RCP, avoid the harm associated with smoking.

Nicotine is a naturally occurring substance that is extracted and purified for use in alternative products. It can cause dependence, which is one of the reasons people find it difficult to give up smoking. Whilst not risk free it is worth emphasising two things:

Nicotine is not a known carcinogen

And nicotine and smoking are not the same thing

However, there is still a lot of education to do. A recent survey amongst US physicians found that the majority "strongly agreed" that nicotine directly contributed to the development of cancer and chronic obstructive pulmonary disease.

In 2001 the US National Academy of Sciences' Institute of Medicine published its seminal report 'Clearing the Smoke'. It laid out a weight of evidence approach to scientifically

assess the risk profile of New Category Products and this is still the bedrock of tobacco harm reduction science today.

Importantly it concluded that: the closer the risks and exposures from a reduced risk product are to cessation, the more confident one can be in the public health benefit. This has been central to the approach of the FDA and a number of other public health bodies.

It is also at the core of our approach at BAT: Offering consumer choice, choices that are driven by innovation and supported by world class science.

We have a clear, evidence based, Multi-disciplinary Risk Assessment Framework for Tobacco Harm Reduction, which is aligned with the FDA.

New Category products remain relatively new to the market. This means that they lack the long-term epidemiological data required to characterise the harm reduction impact over decades of use.

Instead, it is necessary to take a weight of evidence approach based on emissions, exposure and risk levels for each product. And because we have been generating our data for many years, we have progressed as far as population studies.

And anyone who wants to access our data can do so, as our studies are published on: 'batscience.com'.

Based on the evidence we have generated over many years - along with evidence from others - you can see that our New Category products cluster at the low end of the toxicant continuum.

Because these products do not rely on combustion, they have the potential to be significantly less harmful to health.

We have made great progress, but as ever in the field of science, we must continue to conduct cutting edge research to help Build A Better Tomorrow.

We have generated significant amounts of data – and have the most comprehensive published data set on a single vaping product.

In a short-term randomised clinical study measuring Biomarkers of Exposure to certain toxicants... we assessed participants that either: continue to smoke, switch to vaping or quit entirely...we found that:

- Most biomarkers changed quickly
- Most biomarkers in the group that switched to vaping had toxicant levels similar to those that quit,
- and were much reduced from those who continued to smoke.

These results and other data, have enabled us to progress to focus on population studies.

For glo, we recently completed a very important 12-month clinical study to assess the impact that completely switching has on biomarkers of exposure and potential harm. At the three-month timepoint, results showed:

All exposure markers for glo crossed the threshold of biological significance
In many cases, the markers reduced to the same level as cessation

This gives us confidence that these early results for glo are similar to cessation, which is the gold standard.

The 6-month data from this study will be published soon and we are excited to share more data, including the biomarkers of potential harm data ... which we believe support glo's potential and contribution to Tobacco Harm Reduction.

Moving to Modern Oral. Studies on VELO assessed the top 9 toxicants the WHO believes are mainly responsible for smoking related diseases.

These two studies showed that levels of these chemicals for VELO were more than 99% and 76% reduced compared to cigarettes and SNUS respectively.

Also, data very recently published in Drug and Chemical Toxicology add to existing evidence and showed that Velo has a toxicant profile comparable to nicotine replacement therapy products.

Based on over 100 of our own studies, and 3rd party data, across

Emissions

Toxicology

And clinical and population studies

Based on this weight of evidence, we believe our products are scientifically substantiated as reduced risk if users complete switch from cigarette smoking And that these data support the role and use of these products in Tobacco Harm Reduction.

Indeed, recently published Japanese population modelling data showed THP products have the potential to reduce an estimated 13 million life years lost if smokers switch completely rather than continue to smoke.

These data demonstrate why consumer choice and access to these alternative products is so important.

Across the world there is growing acknowledgment of the role for these products. Independent reviews and analysis by key bodies and distinguished groups, such as Cochrane, also support their role in reducing harm.

I now also want to share some of our industry leading science in the CBD space.

In advance of our Vuse CBD City launch in January this year in Manchester, UK we generated substantial amounts of safety data which was critically important.

BAT's robust science capabilities uniquely position and enable us to conduct studies and generate consumer data about CBD and beyond.

The studies show that CBD is not genotoxic – meaning that it does not damage DNA, which is a predictor of cancer potential.

Also, results of our inhalation study, which was the first study of its kind, showed positive results. CBD did not produce any unexpected changes in the lung and respiratory tract.

We have also conducted studies to assess peoples' consumption of vaped CBD.

Based on this knowledge of consumption, combined with a full safety profile, this gives confidence in the use of our products and has enabled us to remove the puff consumption limit consumer information in our UK pilot.

We have a long history and heritage in Science and R&D. And have been a leader in the area of Tobacco Harm reduction for many years.

We are now well on the way to building one of the biggest safety databases on CBD outside pharma. We have, and continue to invest in, world class science and R&D, with our R&D Centres in the UK and the US.

Whilst BTV's investments and our other partnerships further enhance our Science and R&D partner ecosystem.

We believe with this strength and depth our R&D activities will accelerate the transformation of our business and further build understanding of the important role our products are for smokers.

This will help build A Better Tomorrow and - alongside our work in ESG – create shared value for all our Stakeholders.

Jennie Galbraith:

Thanks David.

I'm delighted to be here to share:

1. The strength of our sustainability agenda
2. A deep dive of our capabilities in four key ESG areas, and
3. How we manage ESG to create shared value

As David highlighted, reducing the health impact of our business is core to our purpose and is the principal focus of our Sustainability Agenda. This is underpinned by excellence across all our ESG priorities, and our integrated approach to creating shared value.

As Kingsley mentioned, we have stretching targets to drive a transformation of our business. From our headline targets on consumer numbers and carbon neutrality, to those focusing on specific areas including renewable energy, water and waste.

We are making strong progress against our targets with 82% of our packaging now reusable, recyclable, or compostable, and 100% of our suppliers subject to human rights due diligence. And we are committed to transparent reporting on our journey.

To highlight the strong capabilities we have in place, and how our work is delivering value for BAT and our stakeholders, I'll focus on four key areas of ESG.

Starting with climate change...

We are making great progress against our ambitious carbon neutrality targets for scope 1 and 2. We have reduced our carbon emissions by -37% over the last three years, with a 30% reduction in the last year.

We have on-site solar energy at factories in eight countries, with two new installations planned this year. We are also proud that three of our major sites are going through external certification for carbon neutrality.

Following best practice, we will reduce emissions and increase our use of renewable energy before using carbon offsets to close any gaps. And, beyond our own operations we are also making good progress...

Our work on scope 3 is critical as it represents around 90% of our total carbon footprint. In our leaf supply chain...where we have more ability to drive change quickly... efficient curing technologies are reducing fuel use by around 30%. And we have extensive afforestation programmes.

Outside of leaf, we are engaging with our top suppliers to improve their carbon management and we're really proud that our work has been recognised with a place on CDP's Supplier Engagement leader board.

We also have a comprehensive approach to eliminate child labour that involves:

- Close monitoring at the farm level,

- Work on the root causes of child labour such as rural poverty

- And a rigorous response to any potential breaches

Our strong policies are underpinned by robust monitoring, which is carried out by our field technicians, who visit farms around once a month during the growing season, provide ongoing support to farmers and ensure we have eyes and ears on the ground. This hands-on approach is just one of the benefits of our more vertically integrated supply chain.

Of the 99.7% of the farms monitored, only 0.5% had an incidence of child labour in 2020. Of which, 98.5% were resolved within the year...with the remaining 1% resolved after year end. This independently assured data was set out in our industry first 'Human Right focus report', published late last year

Rural poverty is recognised as a primary root cause of human rights issues in agriculture... and so enhancing farmer livelihoods is central to our strategy. If farmers have profitable farms, they are less likely to use cheaper forms of labour, including their children.

Which is why we are providing advice and support to help farmers achieve a high quality tobacco yield. Child labour is also a culturally complex issue which is why we work across communities to ensure the risks are fully understood. Last year we had 390,000 attendances at over 38,000 human rights farmer training sessions

We have a rigorous approach to responding to potential human rights breaches. Including a 3-strike policy for farms identified with child labour.

We also conduct detailed investigations if we receive any reports or allegations of potential human rights breaches from external stakeholders and transparently respond on our website at bat.com/humanrights/respond.

For example, in 2016 in Bangladesh we commissioned an independent assessment of the human rights-related impacts of tobacco growing and openly published the report and our actions and lessons learned.

We also work closely with third-party suppliers on investigations and responses, such as unannounced visits to farms in Zimbabwe and Italy that supply BAT.

We are clear that we should never compromise our standards for the sake of results. Over the last five years our Business Conduct and Compliance team has continuously strengthened our processes across areas including whistleblowing, anti-bribery, and M&A. With these strong foundations in place we are now focused on data analytics, automation and our interactions including third party management.

This has been recognised externally, with the Dow Jones Sustainability Index rating us as 'industry leading' in the Codes of Conduct category in 2020.

This commitment to integrity extends to ensuring we operate to the highest standards in our contact with consumers - governed by our International Marketing Principles and our Youth Access Prevention plan.

These high standards apply globally, even when they are stricter than local laws. Our principles are also continually updated to reflect changes, such as digital marketing or new product launches.

We work to ensure our IMP are applied consistently, with mandatory training for all Marketing and Legal employees who sign off on marketing materials.

We also apply close oversight to Youth Access Prevention, including through conducting an annual compliance review.

And we are incredibly proud that our efforts and performance in ESG, which build on over 20 years of activity, have received external recognition. In March, Refinitiv named BAT as the third highest ESG-rated FTSE 100 company. And the Financial Times has named us both a Diversity Leader and also a Climate Leader

Our strong progress across ESG would not be possible without embedding it deeply in our organisation and our people. A collaborative and integrated approach is the best way to transform BAT.

One example is the role of ESG in developing the brands with purpose that Kingsley highlighted. We have an exciting pipeline of eco-innovation, including pod return and device recycling, and removing plastic packaging or making it recyclable.

These require ESG-focused collaborations across all parts of the business including marketing, operations, and my team.

We will continue to invest behind BAT's transformation and further strengthen our ESG delivery.

Although, much of this investment is absorbed in existing ways of working – as ESG is so embedded in the business. And we expect to see strong efficiencies of scale as we progress.

So it's important not to think of ESG as an additional cost, but as value add.

Efficiencies result in savings from energy reduction or fewer materials

We are building brands with purpose, and

Strong ESG credentials will support in attracting and retaining employees

Alongside all of the progress and the policies that we have highlighted today, we have much more information in our suite of ESG materials including our: ESG Report and Summary and our Human Rights focus report. All of which are available on bat.com

These showcase:

Our integrated approach to creating share value.

Our stretching targets across the business,

And our strong progress towards them

And finally, how we are working across Health, and each of E, S and G to transform our business

And with that I'll hand back to Kingsley...

Kingsley Wheaton:

Thank you, Jennie,

As we have shown, we are fully committed to accelerating the delivery of our Core Purpose to reduce the health impact of our business and Build A Better Tomorrow.

Central to our transformation is our multi-category portfolio, underpinned by world class science & innovation capabilities.

Alongside Science, to create the enterprise of the future we must operate to the highest standards across E, S and G.

Our belief is that our strategy will result in a sustainable, high growth business long into the future.

So, thank you for listening and we now look forward to taking your questions.

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