EXHIBIT 76

[redacted]

Philip Morris Products S.A.

v.

RAI Strategic Holdings, Inc.

and

R.J. Reynolds Vapor Company

Civil Action No. 1:20-cv-00393-LO-TC

Reply Declaration of Paul K. Meyer

TM Financial Forensics, LLC

September 9, 2022

I, Paul K. Meyer, declare as follows:

I. BACKGROUND AND SCOPE

1. TMF was retained by Latham & Watkins, LLP ("Counsel") on behalf of Plaintiff Philip Morris Products S.A. ("Philip Morris") to provide expert opinions regarding the damages caused by Defendant R.J. Reynolds Vapor Company's ("Reynolds") infringement of certain claims of U.S. Patent Nos. 9,814,265 ("the '265 Patent") and 10,104,911 ("the '911 Patent") (collectively, the "Asserted Patents").

2. I previously submitted a Declaration in this case dated August 12, 2022 that included my opinions regarding the appropriate royalty for Reynolds' post-verdict infringement of the Asserted Patents (the "Meyer Declaration"). I incorporate by reference the entirety of the Meyer Declaration into this declaration.[1]

3. Dr. Ryan Sullivan filed a Declaration dated September 1, 2022 "to provide an economic analysis pertaining to a potential ongoing royalty" and "to review and respond to" the Meyer Declaration (the "Sullivan Declaration").[2]

4. Dr. Sullivan's opinions are based in part on information from two discussions (on August 18 and 25, 2022) with Robert Ferris, RAI Services Company's Director of Commercial Finance for New Categories, and a new spreadsheet provided by Mr. Ferris "that provides Alto's fully-burdened operating profitability from 2019 through June 2022 as well as certain underlying financial data that were used in creating that summary."[3] I will refer to this new spreadsheet and underlying financial data that Dr. Sullivan relies on in the Sullivan Declaration as the "Undisclosed Spreadsheet."[4]

5. The Undisclosed Spreadsheet does not provide any information showing, for example, who created the spreadsheet, when it was created, who last modified it, or where it was stored. The metadata shows a "date created" of "12/31/1899," which cannot be the accurate date it was created. Further, I understand that Reynolds did not previously produce the Undisclosed Spreadsheet, or disclose Mr. Ferris in this case, and thus Philip Morris

[1] For purposes of completeness, I have attached to this reply declaration in **Appendix A** copies of certain publicly-available materials cited in the Meyer Declaration.
[2] Sullivan Declaration: p. 3
[3] Sullivan Declaration: p. 10.
[4] Sullivan Declaration: pp. 8-9.

contends that Reynolds should not be permitted to rely on this new evidence. However, to the extent the Court permits Reynolds to rely on this new evidence, I respond to Dr. Sullivan's opinions relying on this evidence below.

6. I have been asked by Counsel to review and respond to Dr. Sullivan's opinions regarding the Undisclosed Spreadsheet and his discussions with Mr. Ferris.

II. SUMMARY OF DR. SULLIVAN'S OPINIONS RELATED TO REYNOLDS' UNDISCLOSED SPREADSHEET

7. Dr. Sullivan relies on the Undisclosed Spreadsheet and information from his discussions with Mr. Ferris to address my calculated net operating profit of [redacted] for Infringing Alto Cartridges during the first six months of 2022. Below, I summarize his main critiques of my declaration based on the Undisclosed Spreadsheet.

8. First, Dr. Sullivan states that "it is inaccurate to look at the operating profitability of Alto cartridges as being distinct from the profitability of Alto devices, as a consumer must first purchase an Alto device before an Alto cartridge can be used."[5] Dr. Sullivan relies on data from the Undisclosed Spreadsheet to [redacted] related Alto devices, which he uses to [redacted] operating profit to approximately [redacted]. I refer to Dr. Sullivan's critique as "Dr. Sullivan's Alto Device Cost Deduction."

9. Second, Dr. Sullivan states that "I understand that there are certain other costs that RJRV incurred during the first half of 2022 that are not reflected on the product-specific financials, including costs pertaining to the development and commercialization of the VUSE portfolio (e.g., PMTA costs, R&D costs, shared services allocations), the cost of a new ERP system that was implemented, and certain accounting accruals that will be reversed later in the year."[6] He states that "[a] more complete picture of Alto's profitability would include these costs that are specific to RJRV's vapor business and that would appropriately be allocated to Alto based on Alto's proportion of the total vapor sales," and adjusts these costs further to reduce Alto profitability in the first half of 2022 to [redacted]

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[5] Sullivan Declaration: p. 10.
[6] Sullivan Declaration: pp. 10-11.

[redacted] (based on [redacted] of additional allocated expenses).[7] I refer to this critique as "Dr. Sullivan's Cost Allocation Deduction."[8]

10. Third, Dr. Sullivan states: "I disagree with the Meyer Declaration's implication that the parties at the second hypothetical negotiation would look at only six months of Alto cartridge profitability as being indicative of future expected profitability over the duration of the life of the '265 patent" and that "according to the summary provided by Mr. Ferris, the Alto product line has incurred [redacted] from 2019 through June 2022 when accounting for the sales of Alto devices and the appropriately allocated operating expenditures not reflected in the product-specific financials the Meyer Declaration cites."[9] I refer to Dr. Sullivan's critique as "Dr. Sullivan's Historical Cost Deduction."

III. RESPONSE TO DR. SULLIVAN'S CRITIQUES BASED ON THE UNDISCLOSED SPREADSHEET

11. I disagree with Dr. Sullivan's attempts to lower the approximately [redacted] in net operating profits for the Alto Cartridges during the first six months of 2022 which, in turn, would lower the resulting post-verdict royalty rate. Dr. Sullivan acknowledges that operating profitability of the Alto Cartridge for the first half of 2022 is approximately [redacted], yet he improperly deducts various costs from that profit figure that are, in my opinion, improper based on the facts of this case.

12. First, the cost allocations that Dr. Sullivan makes in his Declaration are inconsistent with the cost allocations that, based on my review of the financial spreadsheets that Reynolds produced in this case, Reynolds has made in the ordinary course of business. For example, Reynolds produced numerous spreadsheets in this case prior to producing the Undisclosed Spreadsheet, none of which include the cost allocations Dr. Sullivan is now making to Alto product line. I note that Dr. Sullivan does not cite to any previously produced document to support these new product-line cost allocations.

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[7] Sullivan Declaration: p. 11.
[8] For example, Sullivan Declaration: footnotes 44-46.
[9] Sullivan Declaration: p. 11.

13. Second, the cost allocations that Dr. Sullivan makes in his Declaration are inconsistent with the analysis in his own rebuttal report. Specifically, in the Expert Report of Ryan Sullivan dated March 24, 2021 (the "Sullivan Rebuttal Report"), Dr. Sullivan states: "The parties at the hypothetical negotiations would have considered the profitability and commercial success of the accused VUSE products," and purports to perform an analysis of the profitability of the VUSE products, including Alto Cartridges.[10] But Dr. Sullivan only addresses gross margin. He does not reference, or make any deductions against profit for, the significant cost allocations that he is now asserts should apply to the Alto Cartridges for the first six months of 2022.[11]

A. Response To Dr. Sullivan's Alto Device Cost Deduction

14. It is inappropriate to deduct [redacted] related to Alto devices from the undisputed [redacted] operating profit for Alto Cartridges for the first half of 2022.

15. The Alto devices (also referred to as "power units") are not accused of infringing, and were not found to infringe, the '265 Patent. Neither myself nor Dr. Sullivan included the revenue associated with the Alto devices in the royalty base(s) that we calculated when quantifying damages for Reynolds' past infringement of the '265 Patent. As such, the jury's damages award did not include any royalty amount based on sales of Alto devices.[12]

16. Without conceding that these deductions are appropriate, to assist the Court in determining the appropriate ongoing royalty rate should the Court find that the alleged [redacted] of the Alto devices be deduced from the [redacted] of net operating profits, I calculated the ongoing royalty rates that would be appropriate and allow Reynolds to maintain [redacted] These numbers, which are set forth in column B of **Table 1** below, were calculated based on Reynolds' net operating profit of [redacted] for the first half of 2022 (and [redacted][13]

[10] Sullivan Rebuttal Report: pp. 140-141.
[11] Sullivan Rebuttal Report: pp. 140-141.
[12] Sullivan Declaration: Attachment A-6; Reynolds new profitability data: Vuse Alto Adjusted PL Alto_082422_Reynolds CBI: Tab [redacted]
[13] [redacted]

Table 1: Proforma Analysis: Operating Profit Maintained By Reynolds (Including Alto Device Losses) Under Different Ongoing Royalty Scenarios Reflecting Post-Verdict Changes (Based On Data Covering January 2022 through June 2022)[14]

A Ongoing Royalty Rate (as a % of net sales)	*B* Proforma: Operating Profit Retained by Reynolds	*C* Percent of Operating Profit Retained by Reynolds
3.66%	[redacted]	[redacted]
9.14%	[redacted]	[redacted]
18.29%	[redacted]	[redacted]
27.43%	[redacted]	[redacted]
32.92%	[redacted]	[redacted]

17. As summarized In **Table 1**, if the Court awards an ongoing royalty of 3.66%, Reynolds would maintain approximately [redacted] on sales of Infringing Alto Cartridges for the first six months of 2022. If the Court awards an ongoing royalty of 9.14%, Reynolds would maintain approximately [redacted] on sales of Infringing Alto Cartridges for the first six months of 2022. If the Court awards an ongoing royalty of 18.29%, Reynolds would maintain approximately [redacted] on sales of Infringing Alto Cartridges for the first six months of 2022. If the Court awards an ongoing royalty of 27.43%, Reynolds would maintain approximately [redacted] on sales of Infringing Alto Cartridges for the first six months of 2022. And, finally, if the Court awards an ongoing royalty of 32.92%, Reynolds would maintain approximately [redacted] on sales of Infringing Alto Cartridges for the first six months of 2022.

18. Additionally, to help illustrate the amount of profit that Reynolds would retain if the Court were to adopt Reynold's position of a post-verdict royalty of 0.6% of net sales, or adopt Reynolds' position and treble that post-verdict royalty rate, I summarized the net operating profit margin maintained by Reynolds for the first half of 2022 under both scenarios in **Table 2** below.

[14] **Attachment 2**.

Table 2: Proforma Analysis: Operating Profit Maintained By Reynolds With Jury Rate or Trebled Jury Rate (Including Alto Device Losses) (Based On Data Covering January 2022 through June 2022)[15]

A **Ongoing Royalty Rate (as a % of net sales)**	***B*** **Proforma: Operating Profit Retained by Reynolds**	***C*** **Percent of Operating Profit Retained by Reynolds**
0.6%	[redacted]	[redacted]
1.8%	[redacted]	[redacted]

B. Response To Dr. Sullivan's Cost Allocation Deduction

19. As discussed, Dr. Sullivan opines, based on the Undisclosed Spreadsheet that Mr. Ferris provided, that an additional [redacted] of cost allocations should be deducted from the Infringing Alto Cartridges profits for the first half of 2022. The [redacted] consists of three allocation cost components: (1) [redacted]; (2) [redacted] and (3) [redacted].[16]

20. For these three cost allocations, Dr. Sullivan provides a single sentence purporting to explain what they mean. Without linking the abbreviations and his explanation, and relying only on Mr. Ferris, Dr. Sullivan states that they "include[e] costs pertaining to the development and commercialization of the VUSE portfolio (e.g., PMTA costs, R&D costs, shared services allocations), the cost of a new ERP system that was implemented, and certain accounting accruals that will be reversed later in the year."[17]

21. Dr. Sullivan's explanation is wholly insufficient to justify reducing the [redacted] in stated operating profits for the Alto Cartridges for the first six months of 2022 by [redacted] As an initial matter, I am not aware of any other spreadsheet that either myself or Dr. Sullivan relied on in our prior reports served in this case that includes these additional operating expense categories allocated to the Alto product line profit and loss statements.

[15] **Attachment 1**.
[16] Sullivan Declaration: Attachment A-6.
[17] Sullivan Declaration: pp. 10-11.

22. Putting aside that these allocations are not corroborated by any document that Reynolds produced, Dr. Sullivan has not demonstrated that these allocations are proper. For example, Dr. Sullivan states that the costs include "PMTA costs" and "R&D costs."[18] Dr. Sullivan provides no explanation as to why it would be proper to allocate these costs and, based on the facts, they should not be allocated from Reynolds' operating profits.

23. It is improper to allocate "PMTA costs" in 2022 to the Alto Cartridges. For example, as Dr. James Figlar, Reynolds' retired Executive Vice President, Research & Development and Scientific & Regulatory Affairs, testified, the PMTA for the Alto was completed in August 2020 and submitted to FDA no later than September 2020.[19] This cost was incurred in 2020 and should not be deducted from Infringing Alto Cartridges profits made in 2022. Additionally, Dr. Sullivan ignores the PMTA includes aspects of the Alto unrelated to the cartridges, such as the device. Dr. Sullivan makes no attempt to explain why this allocation is appropriate.

24. It is improper to allocate millions of dollars in alleged "R&D" costs to the Alto in 2022. Dr. Sullivan does not describe what these research and development ("R&D") costs pertain to or how they relate to Alto at all, much less how they were incurred on Alto Cartridges in the first six months of 2022. The allocation and cost deduction is particularly improper as I understand that the design of the Alto Cartridge was fixed before August 8, 2016, when the Deeming Rule was enacted, and that Reynolds cannot sell a modified Alto Cartridge in the United States absent Pre-Market Tobacco Authorization from the U.S. Food & Drug Administration ("FDA"). Further, Reynolds admitted that it has made no changes to the Alto Cartridge since August 8, 2016.[20] Dr. Sullivan ignores this and makes no attempt to explain why this allocation is appropriate.

25. Dr. Sullivan states that the [redacted] of allocated costs includes "shared services allocations."[21] Dr. Sullivan provides no explanation of what "shared services allocations"

[18] Sullivan Declaration: p. 10.
[19] Deposition of James Figlar, Executive Vice President, Research & Development and Scientific & Regulatory Affairs at Reynolds, June 3, 2022: p. 156.
[20] RAI Strategic Holdings, Inc. and R.J. Reynolds Vapor Company's Responses to Altria Client Services LLC, Philip Morris USA, Inc., and Philip Morris Products S.A.'s Fourth Set of Requests for Admission (Nos. 116-263): pp. 25-26
[21] Sullivan Declaration: p. 10.

are or why they are appropriate to deduct from the stated [redacted] in operating profits for the Alto Cartridges for the first six months of 2022. He does not describe, for example, (1) what costs comprises the "shared services"; (2) how the "shared services" benefit the Alto product line; (3) which entity incurred the "shared services" costs (e.g., BAT), (4) the allocation methodology used to allocate costs to the Alto product line; (5) whether the "shared services" costs are variable (i.e., would have been lower had the Alto Cartridges not been sold); and (6) whether Reynolds uses an operating margin for the Alto Cartridge that includes a deduction for "shared services" allocation when making any business decisions. Dr. Sullivan has not demonstrated the nature of these costs or shown that the "shared services" costs are appropriate, relevant, variable costs that would be considered by Reynolds in any business decision considering the Alto, much less considered by Reynolds and Phillip Morris when negotiating a post-verdict royalty for the '265 Patent.

26. One of the costs on which Dr. Sullivan relies states: [redacted]. Again, Dr. Sullivan does not explain what this cost category means. He simply states it refers to "the cost of a new ERP system that was implemented."[22] Likewise, regarding the line item cost [redacted], Dr. Sullivan simply states it refers to "certain accounting accruals that will be reversed later in the year."[23] Based on the description that Dr. Sullivan provided, it is improper to deduct these costs from Reynolds' operating profits for Alto Cartridges for the first six months of 2022. For both alleged cost allocations, the Undisclosed Spreadsheet includes no support or explanation for these costs. They are not linked to any other spreadsheet that includes a build-up of what comprises the costs, and Dr. Sullivan cites to no documents or evidence to corroborate these costs. For both cost allocations, Dr. Sullivan fails to provide: (1) the nature of the costs (2) how the costs benefit the Alto product line; (3) which entity incurred the costs (e.g., BAT), (4) allocation methodology used; (5) evidence the costs are variable (i.e., would have been lower had the Alto

[22] Sullivan Declaration: pp. 10-11, Attachment A-6; Reynolds new profitability data: Vuse Alto Adjusted PL Alto_082422_Reynolds CBI: Tab [redacted]

[23] Sullivan Declaration: pp. 10-11, Attachment A-6; Reynolds new profitability data: Vuse Alto Adjusted PL Alto_082422_Reynolds CBI: Tab [redacted]

Cartridges not been sold); and (6) evidence that Reynolds uses an operating margin for the Alto that deducts these costs for any business decisions related to the Alto.

27. Further, based on Reynolds' Undisclosed Spreadsheet, the first six months of 2022 is the only period since 2019 (the first full year that the Alto was on the U.S. market) that the Alto product allegedly received any allocation besides the alleged [redacted] allocation. In other words, Dr. Sullivan's alleged allocations for the first six months of 2022 are inconsistent with any other alleged allocation that Reynolds made for Alto Cartridges since its inception. Notably, these new allocations result in the Alto product allegedly receiving a significant increase—over [redacted] higher than any prior 6-month period—in allegedly allocated costs, well beyond any costs that Reynolds previously allocated.[24] Dr. Sullivan does not explain why these alleged one-off, likely fixed and sunk costs and "accounting accruals that will be reversed later in the year" would have any bearing on the negotiation for a post-verdict royalty for the '265 patent.

28. Without conceding that these deductions are appropriate, to assist the Court in determining the appropriate ongoing royalty rate should the [redacted] operating loss of the Alto devices and the [redacted] cost allocation for [redacted] be deducted from the [redacted] operating profit, I calculated the ongoing royalty rates that would be appropriate and allow Reynolds to maintain [redacted]. These numbers, which are set forth in column A of **Table 3** below, were calculated based on Reynolds' net operating profit of [redacted] for the first half of 2022 (and the [redacted][25]

[24] Second highest allocated amount for six-month period was [redacted] Sullivan Declaration: Attachment A-6; Reynolds new profitability data: Vuse Alto Adjusted PL Alto_082422_Reynolds CBI: Tab [redacted]
[25] [redacted]

Table 3: Proforma Analysis: Operating Profit Maintained By Reynolds (Including Alto Device Losses And "R&D | NBE | OIE" Allocation) Under Different Ongoing Royalty Scenarios Reflecting Post-Verdict Changes (Based On Data Covering January 2022 through June 2022)[26]

A Ongoing Royalty Rate (as a % of net sales)	*B* Proforma: Operating Profit Retained by Reynolds	*C* Percent of Operating Profit Retained by Reynolds
1.89%	[redacted]	[redacted]
4.73%	[redacted]	[redacted]
9.46%	[redacted]	[redacted]
14.19%	[redacted]	[redacted]
17.03%	[redacted]	[redacted]

29. As summarized in **Table 3**, if the Court awards an ongoing royalty of 1.89%, Reynolds would maintain approximately [redacted] on sales of Infringing Alto Cartridges for the first six months of 2022. If the Court awards an ongoing royalty of 4.73%, Reynolds would maintain approximately [redacted] on sales of Infringing Alto Cartridges for the first six months of 2022. If the Court awards an ongoing royalty of 9.46%, Reynolds would maintain approximately [redacted] on sales of Infringing Alto Cartridges for the first six months of 2022. If the Court awards an ongoing royalty of 14.19%, Reynolds would maintain approximately [redacted] on sales of Infringing Alto Cartridges for the first six months of 2022. And, finally, if the Court awards an ongoing royalty of 17.03%, Reynolds would maintain approximately [redacted] on sales of Infringing Alto Cartridges for the first six months of 2022.

30. In **Table 3**, I did not perform a profitability calculation deducting the costs associated with the line items [redacted] that Dr. Sullivan allocated to the Alto in the first six months of 2022 because Reynolds itself never allocated any similar costs for Alto Cartridges at any point since releasing Alto in 2018 and there is no evidence the likely fixed, one-time costs are relevant to a royalty determination.

[26] **Attachment 4**.

31. Additionally, to help illustrate the amount of profit that Reynolds would retain if the Court were to adopt Reynold's position of a post-verdict royalty of 0.6% of net sales, or adopt Reynolds' position and treble that post-verdict rate, I summarized the net operating profit margin maintained by Reynolds for the first half of 2022 under both scenarios in **Table 4** below.

Table 4: Proforma Analysis: Operating Profit Maintained By Reynolds With Jury Rate or Trebled Jury Rate (Including Alto Device Losses And [redacted] Allocation) (Based On Data Covering January 2022 through June 2022)[27]

A **Ongoing Royalty Rate (as a % of net sales)**	***B*** **Proforma: Operating Profit Retained by Reynolds**	***C*** **Percent of Operating Profit Retained by Reynolds**
0.6%	[redacted]	[redacted]
1.8%	[redacted]	[redacted]

C. Response to Dr. Sullivan's Historic Cost Deduction

32. As discussed, Dr. Sullivan opines that the parties at the June 15, 2022 post-verdict hypothetical negotiation would consider the historic profitability for the Infringing Alto Cartridges, not just the profitability for the post-verdict period (for which Reynolds produced relevant sales data in July 2022) of January 1, 2022 to June 15, 2022. I disagree.

33. The jury awarded damages for Reynolds' past infringement through December 31, 2021 based in part of the profitability of Alto Cartridges from its release in August 2018 through December 31, 2021. In contrast, the jury did not consider any profitability or sales data for the Alto Cartridges after January 1, 2022. Moreover, an ongoing royalty is inherently prospective in nature, and is meant to compensate the patentee (here, Philip Morris) for future use of its patented technology. As such, the focus of the parties at the post-verdict hypothetical negotiation would be on current profits and/or expected profits, not the historical profitability (or lack thereof) that the jury considered. As I discussed in the

[27] **Attachment 3**.

Meyer Declaration, which is fully incorporated herein by reference, the significant increase in profitability and sales of Infringing Alto Cartridges in the first half of 2022—which was not considered in my prior analysis or presented to the jury because Reynolds did not produce this sales data before trial—would be the appropriate basis from which the post-verdict royalty would be negotiated under the facts of this case.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 9th day of September, 2022.

Paul K. Meyer

Attachment 1

Operating Profits On Infringing Alto Cartridges Maintained By Reynolds
With Jury Awarded Royalty Rate or Trebled Jury Awarded Royalty Rate
Including Alto Device Operating Losses
January 1, 2022 through June 30, 2022

A	*B*	*C*	*D = A x C*	*E = B - D*	*F = E / B*
Reynolds Net Sales[1]	**Reynolds Operating Profits[2]**	**Royalty %**	**Royalty Payment**	**Operating Profit Maintained by Reynolds**	**Percent of Operating Profit Maintained by Reynolds**
[redacted]	[redacted]	0.60%	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	1.80%	[redacted]	[redacted]	[redacted]

__Notes__:
[1] Meyer 8/12/2022 Declaration: **Attachment 5**.
[2] Sullivan Declaration: Attachment A-6. Reynolds operating profit considering Device operating loss.

Attachment 2

Operating Profits On Infringing Alto Cartridges Maintained By Reynolds
Under Different Ongoing Royalty Scenarios Reflecting Post-Verdict Changes
Including Alto Device Operating Losses
January 1, 2022 through June 30, 2022

A	*B*	*C = A x B*	*D = A - C*	*E*	*F = D / E*
Reynolds Operating Profits[1]	**Percent of Operating Profit Maintained by Reynolds**	**Operating Profit Maintained by Reynolds**	**Royalty Payment**	**Reynolds Net Sales**[2]	**Royalty %**
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	3.66%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	9.14%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	18.29%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	27.43%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	32.92%

__Notes__:
[1] Sullivan Declaration: Attachment A-6. Reynolds operating profit considering Device operating loss.
[2] Meyer 8/12/2022 Declaration: **Attachment 5**.

Attachment 3

Operating Profits On Infringing Alto Cartridges Maintained By Reynolds
With Jury Awarded Royalty Rate or Trebled Jury Awarded Royalty Rate
Including Alto Device Operating Losses And [redacted] Cost Allocation
January 1, 2022 through June 30, 2022

A	*B*	*C*	*D = A x C*	*E = B - D*	*F = E / B*
Reynolds Net Sales[1]	**Reynolds Operating Profits**[2]	**Royalty %**	**Royalty Payment**	**Operating Profit Maintained by Reynolds**	**Percent of Operating Profit Maintained by Reynolds**
[redacted]	[redacted]	0.60%	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	1.80%	[redacted]	[redacted]	[redacted]

Notes:
[1] Meyer 8/12/2022 Declaration: **Attachment 5**.
[2] Sullivan Declaration: Attachment A-6. Reynolds operating profit considering: (1) Device operating loss, and (2) Reynolds "[redacted]. Calculated as [redacted]

Attachment 4

Operating Profits On Infringing Alto Cartridges Maintained By Reynolds
Under Different Ongoing Royalty Scenarios Reflecting Post-Verdict Changes
Including Alto Device Operating Losses And [redacted] Cost Allocation
January 1, 2022 through June 30, 2022

A **Reynolds Operating Profits[1]**	*B* **Percent of Operating Profit Maintained by Reynolds**	*C = A x B* **Operating Profit Maintained by Reynolds**	*D = A - C* **Royalty Payment**	*E* **Reynolds Net Sales[2]**	*F = D / E* **Royalty %**
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	1.89%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	4.73%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	9.46%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	14.19%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	17.03%

Notes:
[1] Sullivan Declaration: Attachment A-6. Reynolds operating profit considering: (1) Device operating loss, and (2) Reynolds "[redacted]. Calculated as [redacted]
[2] Meyer 8/12/2022 Declaration: **Attachment 5**.

Appendix A

CORE

BARCLAYS

Equity Research

Consumer | European Consumer Staples

28 June 2022

British American Tobacco Plc

JUUL's loss could be Vuse's gain

A ban on JUUL could grow Vuse's profits 2x: According to our per-pack analysis and BAT's disclosures, we estimate that BAT lost c$1.20/pod EBIT in US e-cigs in FY21, or almost -$350mn, which will likely swing to $0.40+ in EBIT/pack in FY22, or c$160mn. With increasing prices, reduced trade margins and scale benefits in US e-cigs, we estimate BATS could grow US e-cigs EBIT to c$600mn+ in FY25. And with last week's developments in the US e-cig industry, BATS US e-cigs EBIT could be even higher.

Last week, *the FDA denied authorization* to JUUL's e-cigs and asked it to withdraw its products from the market immediately. However, JUUL appealed the decision and has obtained an administrative stay on the FDA order, i.e. it can continue selling the products in the market until the case is decided by the court. We believe it is going to be very difficult for JUUL to overturn the FDA's decision, which stated that "the applications lacked sufficient evidence regarding the toxicological profile of the products". If JUUL is banned, we expect the majority of its consumers to switch to other e-cigs in the market. For illustrative purposes, we consider two possible scenarios:

Scenario 1: 50% of JUUL's sales shift to Vuse in FY23 – this would lead to an incremental volume of c180mn pods or EBIT of c$150mn for Vuse in FY23 and total e-cig EBIT of c$900mn in FY25. This does not assume any scale benefits due to volume.

Scenario 2: 100% of JUUL's sales shift to Vuse in FY23 – this would lead to an incremental volume of c360mn pods or EBIT of c$300mn for Vuse in FY23 and total e-cig EBIT of c$1,150mn in FY25. This does not assume any scale benefits due to volume.

Changes to our estimates: (a) We update our model for FX and now expect a c4.5% tailwind in FY22E vs. c4% earlier. (b) We now expect c7% cig price/mix in the US in FY22E vs. 9% earlier due to adverse mix impact from Lucky Strike. (c) We expect slightly better volumes and price/mix in APME and AmSSA. **1H 22 results on 27 July**. Note that BATS hasn't exited Russia yet and thus its reported numbers may be higher than our estimates (and consensus) as our model excludes Russia.

BATS.L: Financial and Valuation Metrics EPS GBp

FY Dec	2020	2021	2022	2023	2024
EPS	331.7A	329.0A	366.1E	402.0E	437.6E
Previous EPS	331.7A	329.0A	366.5E	401.7E	437.0E
Consensus EPS	332.0A	329.0A	359.4E	392.5E	427.8E
P/E	10.6	10.7	9.6	8.8	8.1

Source: Barclays Research.
Consensus numbers are from Bloomberg received on 27-Jun-2022; 12:50 GMT

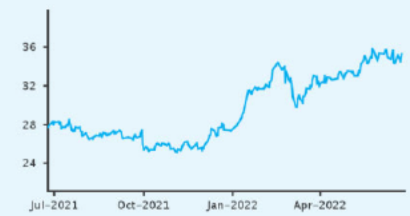
Stock Rating	OVERWEIGHT
	Unchanged
Industry View	NEUTRAL
	Unchanged
Price Target	GBp 4400
	Unchanged

Price (24-Jun-2022)	GBp 3531
Potential Upside/Downside	+24.6%
Tickers	BATS LN / BATS.L

Market Cap (GBP mn)	79751
Shares Outstanding (mn)	2258.92
Free Float (%)	99.96
52 Wk Avg Daily Volume (mn)	3.1
Dividend Yield (%)	6.17
Return on Equity TTM (%)	10.48
Current BVPS (GBp)	2924.20

Source: Bloomberg

Price Performance	Exchange-LSE
52 Week range	GBP 36.13-25.08



Source: IDC; Link to Barclays Live for interactive charting

European Consumer Staples

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European Consumer Staples — **Industry View: NEUTRAL**

British American Tobacco Plc (BATS.L)

Stock Rating: OVERWEIGHT

Income statement (£mn)	2021A	2022E	2023E	2024E	CAGR
Revenue	25,684	27,373	28,374	29,254	4.4%
EBITDA (adj)	11,866	13,047	13,824	14,563	7.1%
EBIT (adj)	11,150	12,250	12,985	13,687	7.1%
Pre-tax income (adj)	10,146	11,219	12,095	12,888	8.3%
Net income (adj)	7,556	8,306	8,975	9,583	8.2%
EPS (adj) (GBp)	329.0	366.1	402.0	437.6	10.0%
Diluted shares (mn)	2,297.0	2,268.4	2,232.7	2,189.9	-1.6%
DPS (GBp)	217.8	222.2	226.6	231.1	2.0%

Margin and return data					Average
EBITDA (adj) margin (%)	46.2	47.7	48.7	49.8	48.1
EBIT (adj) margin (%)	43.4	44.8	45.8	46.8	45.2
Pre-tax (adj) margin (%)	37.8	39.2	40.8	42.1	40.0
Net (adj) margin (%)	29.4	30.3	31.6	32.8	31.0
ROA (%)	6.1	6.7	7.1	7.4	6.8
ROE (%)	12.1	12.7	13.5	14.2	13.1
ROCE (%)	8.2	9.0	9.6	10.1	9.2

Cash flow and balance sheet (£mn)					CAGR
Cash flow from operations	9,717	10,881	11,531	12,005	7.3%
Cash flow from investing	-1,140	-762	-782	-800	N/A
Cash flow from financing	-8,749	-9,327	-9,775	-10,262	N/A
Capital expenditure	-527	-562	-582	-600	N/A
Equity free cash flow	7,376	8,456	9,178	9,672	9.5%
Tangible fixed assets	4,953	5,253	5,557	5,865	5.8%
Intangible fixed assets	115,625	115,115	114,579	114,021	-0.5%
Cash and equivalents	2,809	3,601	4,574	5,517	25.2%
Total assets	137,365	138,080	139,156	140,163	0.7%
Short and long-term debt	39,658	39,158	38,658	38,158	-1.3%
Total liabilities	69,964	69,658	69,586	69,360	-0.3%
Shareholders' equity	65,416	66,414	67,539	68,748	1.7%
Net debt/(funds)	35,548	34,256	32,783	31,340	-4.1%

Valuation and leverage metrics					Average
P/E (adj) (x)	10.7	9.6	8.8	8.1	9.3
EV/sales (x)	4.5	4.2	4.0	3.8	4.2
EV/EBITDA (adj) (x)	9.8	8.8	8.2	7.7	8.7
EV/EBIT (adj) (x)	10.5	9.4	8.8	8.2	9.2
Equity FCF yield (%)	9.1	10.6	11.6	12.5	11.0
P/BV (x)	1.2	1.2	1.2	1.1	1.2
Dividend yield (%)	6.2	6.3	6.4	6.5	6.4
Net debt/EBITDA (adj) (x)	3.0	2.6	2.4	2.2	2.5

Selected operating metrics					Average
Organic sales growth (%)	6.9	1.7	3.7	3.1	3.8
Tax rate (%)	25	25	25	25	25
Capex/sales (%)	2.1	2.1	2.1	2.1	2.1

Price (24-Jun-2022)	GBp 3,531
Price Target	GBp 4,400

Why Overweight? We expect BAT to grow organic revenues at c3-4% and expand margins by c100bps p.a over the next few years. This coupled with share repurchases would add another c2% p.a. and result in EPS growth of high-single digits. Using a P/E multiple of ~11x results in our price target of 4400p.

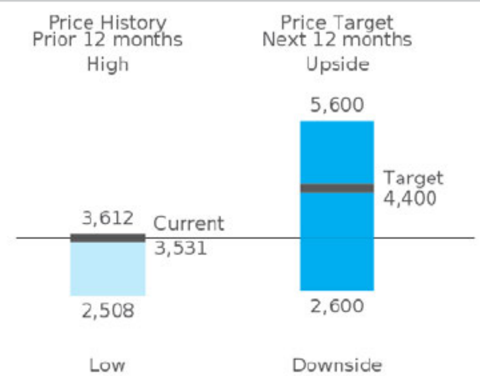
Upside case — **GBp 5,600**

We model slightly faster organic growth, resulting in low double-digit constant currency EPS growth. Based on a ~14.0x multiple, we derive an upside valuation of 5600p.

Downside case — **GBp 2,600**

We model volumes to decline at a greater pace, resulting in very low EPS growth. Based on a ~6.5x multiple, we derive a downside valuation of 2600p.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

Vuse turns profitable in the US

Per our per-pack analysis, we estimate that BAT lost c$1.20/pod EBIT in US e-cigs in FY21, or almost -$350mn, which will likely swing to $0.40+ in EBIT/pack in FY22, or c$160mn. If cost/pod remains similar going forward, US e-cig EBIT could grow to $600mn+ by 2025, and if cost/pod goes down and e-cig business scales up, US e-cig EBIT could be even higher. In our published model, we include US e-cig profitability of c$600mn in FY25E.

FIGURE 1

Base case: Vuse could generate $0.40+/pod EBIT in the US in 2022

E-cigs per pack analysis ($)	2021	2022E	2023E	2024E	2025E
Net revenue per pack/pod/can (post federal excise)	**2.66**	**3.66**	**3.95**	**4.19**	**4.44**
- MSA payments	-	-	-	-	-
= Manufacturer's rev/pack post regulatory payments	**2.66**	**3.66**	**3.95**	**4.19**	**4.44**
- COGS	(2.10)	(1.70)	(1.70)	(1.70)	(1.70)
= Gross profit per pack/pod/can	**0.56**	**1.97**	**2.26**	**2.50**	**2.75**
- SG&A	(1.77)	(1.55)	(1.55)	(1.55)	(1.55)
= EBIT per pack/pod/can ($)	**(1.20)**	**0.42**	**0.71**	**0.95**	**1.20**
change y/y			70%	33%	26%
No. of pods (mn)	291.0	372.5	447.0	491.7	540.8
EBIT - e-cigs ($ mn)	(350)	157	319	467	650
Adj. Operating income ($mn)					
Cigs	7,528	7,444	7,739	8,022	8,310
American Snuff	1,061	1,090	1,103	1,117	1,131
All Other (inc. e-cigs/modern oral etc.)	(490)	156	349	477	617
Adj. Operating income - RAI	**8,099**	**8,689**	**9,192**	**9,616**	**10,058**
growth %		7.3%	5.8%	4.6%	4.6%
Margin %					
Cigs	54.6%	54.6%	55.3%	55.9%	56.5%
American Snuff	71.6%	72.0%	72.2%	72.3%	72.5%
All Other (inc. e-cigs/modern oral etc.)	NA	14.0%	26.3%	32.8%	38.7%
Adj. Operating income - RAI	**50.4%**	**53.4%**	**54.5%**	**55.4%**	**56.3%**
Group EPS (p)	**329.0**	**366.1**	**402.0**	**437.6**	**477.0**
growth %		11.3%	9.8%	8.9%	9.0%

Source: Company reports, Barclays Research estimates

Scenario analysis: JUUL sales shift to Vuse

In the section below, for illustrative purposes we consider two possible scenarios to show the potential incremental volumes and EBIT gain for Vuse if JUUL is banned in the US.

Scenario 1: 50% of JUUL's sales shift to Vuse in FY23

In our first scenario we assume that JUUL sales are banned and 50% of its sales shift to Vuse in FY23. This would lead to an incremental volume of c180mn pods or EBIT of c$150mn for Vuse in FY23. This could lead to c1% incremental EPS growth in FY23.

Due to scale benefits, if COGS/pod and SG&A/pod decline by 5%, total US e–cigs EBIT could be c$1.05bn.

FIGURE 2

Scenario 1: 50% of JUUL's sales shift to Vuse in FY23 – c1% incremental growth in Group EPS

E-cigs per pack analysis ($)	2021	2022E	2023E	2024E	2025E
Net revenue per pack/pod/can (post federal excise)	**2.66**	**3.66**	**3.95**	**4.19**	**4.44**
- MSA payments	-	-	-	-	-
= Manufacturer's rev/pack post regulatory payments	**2.66**	**3.66**	**3.95**	**4.19**	**4.44**
- COGS	(2.10)	(1.70)	(1.61)	(1.61)	(1.61)
= Gross profit per pack/pod/can	**0.56**	**1.97**	**2.34**	**2.58**	**2.83**
- SG&A	(1.77)	(1.55)	(1.47)	(1.47)	(1.47)
= EBIT per pack/pod/can ($)	**(1.20)**	**0.42**	**0.88**	**1.11**	**1.36**
change y/y			108%	27%	23%
No. of pods (mn)	291.0	372.5	628.6	691.5	760.6
EBIT - e-cigs ($ mn)	(350)	157	550	769	1,037
Adj. Operating income ($mn)					
Cigs	7,528	7,444	7,739	8,022	8,310
American Snuff	1,061	1,090	1,103	1,117	1,131
All Other (inc. e-cigs/modern oral etc.)	(490)	156	505	684	881
Adj. Operating income - RAI	**8,099**	**8,689**	**9,347**	**9,823**	**10,322**
growth %		7.3%	7.6%	5.1%	5.1%
Margin %					
Cigs	54.6%	54.6%	55.3%	55.9%	56.5%
American Snuff	71.6%	72.0%	72.2%	72.3%	72.5%
All Other (inc. e-cigs/modern oral etc.)	NA	14.0%	27.3%	33.8%	39.7%
Adj. Operating income - RAI	**50.4%**	**53.4%**	**53.8%**	**54.8%**	**55.8%**
Group EPS (p)	**329.0**	**366.1**	**406.1**	**443.2**	**484.4**
growth %		11.3%	10.9%	9.1%	9.3%
vs. base case			1.0%	1.3%	1.5%

Source: Company reports, Barclays Research estimates

Scenario 2: 100% of JUUL's sales shift to Vuse in FY23

Our second scenario assumes that JUUL sales are banned and 100% of its sales shift of Vuse in FY23. This would lead to an incremental volume of c360mn pods or EBIT of c$300mn for Vuse in FY23, which could in turn lead to c2% incremental EPS growth in FY23.

Due to scale benefits, if COGS/pod and SG&A/pod decline by 10%, total US e–cigs EBIT could be c$1.50bn.

FIGURE 3

Scenario 2: 100% of JUUL's sales shift to Vuse in FY23 – c2% incremental growth in Group EPS

E-cigs per pack analysis ($)	2021	2022E	2023E	2024E	2025E
Net revenue per pack/pod/can (post federal excise)	**2.66**	**3.66**	**3.95**	**4.19**	**4.44**
- MSA payments	-	-	-	-	-
= Manufacturer's rev/pack post regulatory payments	**2.66**	**3.66**	**3.95**	**4.19**	**4.44**
- COGS	(2.10)	(1.70)	(1.53)	(1.53)	(1.53)
= Gross profit per pack/pod/can	**0.56**	**1.97**	**2.43**	**2.66**	**2.92**
- SG&A	(1.77)	(1.55)	(1.39)	(1.39)	(1.39)
= EBIT per pack/pod/can ($)	**(1.20)**	**0.42**	**1.04**	**1.27**	**1.53**
change y/y			147%	23%	20%
No. of pods (mn)	291.0	372.5	810.2	891.3	980.4
EBIT - e-cigs ($ mn)	(350)	157	840	1,136	1,496
Adj. Operating income ($mn)					
Cigs	7,528	7,444	7,739	8,022	8,310
American Snuff	1,061	1,090	1,103	1,117	1,131
All Other (inc. e-cigs/modern oral etc.)	(490)	156	660	891	1,146
Adj. Operating income - RAI	**8,099**	**8,689**	**9,503**	**10,031**	**10,586**
growth %		7.3%	9.4%	5.6%	5.5%
Margin %					
Cigs	54.6%	54.6%	55.3%	55.9%	56.5%
American Snuff	71.6%	72.0%	72.2%	72.3%	72.5%
All Other (inc. e-cigs/modern oral etc.)	NA	14.0%	27.9%	34.3%	40.2%
Adj. Operating income - RAI	**50.4%**	**53.4%**	**53.1%**	**54.2%**	**55.4%**
Group EPS (p)	**329.0**	**366.1**	**410.2**	**448.8**	**491.7**
growth %		11.3%	12.0%	9.4%	9.6%
vs. base case			2.1%	2.6%	3.1%

Source: Company reports, Barclays Research estimates

Changes to estimates

- We update our model for FX and now expect a c4.5% tailwind in FY22E vs. c4% earlier.
- We now expect c7% cig price/mix in the US in FY22E vs. 9% earlier due to adverse mix impact from Lucky Strike.
- We expect slightly better volumes and price/mix in APME and AmSSA.

FIGURE 4
Changes to estimates

£mn, except per share data	2022E Old	2022E New	% Change	2023E Old	2023E New	% Change
United States	12,997	12,878	-0.9%	13,466	13,348	-0.9%
Asia-Pacific & Middle East	4,364	4,449	2.0%	4,488	4,576	2.0%
Americas & Sub-Saharan Africa	4,386	4,448	1.4%	4,512	4,575	1.4%
Europe & North Africa	5,570	5,599	0.5%	5,845	5,875	0.5%
Revenue	**27,316**	**27,373**	**0.2%**	**28,311**	**28,374**	**0.2%**
Revenue Growth YoY	6.4%	6.6%		3.6%	3.7%	
Organic revenue growth YoY	2.1%	1.7%		3.6%	3.7%	
United States	7,004	6,878	-1.8%	7,385	7,276	-1.5%
Asia-Pacific & Middle East	1,789	1,846	3.2%	1,863	1,922	3.2%
Americas & Sub-Saharan Africa	1,798	1,846	2.6%	1,872	1,922	2.6%
Europe & North Africa	1,671	1,680	0.5%	1,856	1,865	0.5%
Adjusted profit from operations	**12,262**	**12,250**	**-0.1%**	**12,976**	**12,985**	**0.1%**
United States	53.9%	53.4%		54.8%	54.5%	
Asia-Pacific & Middle East	41.0%	41.5%		41.5%	42.0%	
Americas & Sub-Saharan Africa	41.0%	41.5%		41.5%	42.0%	
Europe & North Africa	30.0%	30.0%		31.8%	31.8%	
Adjusted profit from operations margin	**44.9%**	**44.8%**		**45.8%**	**45.8%**	
Adjusted EPS (GBp)	**366.5**	**366.1**	**-0.1%**	**401.7**	**402.0**	**0.1%**
DPS (GBp)	**222.2**	**222.2**	**0.0%**	**226.6**	**226.6**	**0.0%**
Company specific metrics:						
Volume growth y/y	-7.7%	-7.6%		-2.3%	-2.3%	
Cash flow & Balance Sheet:						
Net Debt	34,249	34,256	0.0%	32,785	32,783	0.0%
Adjusted EBITDA	13,057	13,047	-0.1%	13,812	13,824	0.1%
Net debt/EBITDA	2.6x	2.6x		2.4x	2.4x	
Free Cash flow - Equity	8,463	8,456	-0.1%	9,169	9,178	0.1%

Source: Barclays Research estimates

Financial Forecasts

P&L forecasts

FIGURE 5

P&L summary (all numbers in £mn, except per share data. Year-end December)

	2019	2020	2021	2022E	2023E	2024E	CAGR 21-24'
United States	10,373	11,473	11,691	12,878	13,348	13,744	5.5%
Asia-Pacific & Middle East	5,153	4,537	4,191	4,449	4,576	4,661	3.6%
Americas & Sub-Saharan Africa	4,261	3,772	3,801	4,448	4,575	4,682	7.2%
Europe & North Africa	6,040	5,994	6,001	5,599	5,875	6,167	0.9%
Revenue	**25,827**	**25,776**	**25,684**	**27,373**	**28,374**	**29,254**	**4.4%**
United States	9.2%	10.6%	1.9%	10.2%	3.6%	3.0%	
Asia-Pacific & Middle East	5.6%	-12.0%	-7.6%	6.2%	2.9%	1.9%	
Americas & Sub-Saharan Africa	3.6%	-11.5%	0.8%	17.0%	2.9%	2.3%	
Europe & North Africa	3.7%	-0.8%	0.1%	-6.7%	4.9%	5.0%	
Revenue Growth YoY	**6.2%**	**-0.2%**	**-0.4%**	**6.6%**	**3.7%**	**3.1%**	
New categories revenue	**1,255**	**1,443**	**2,054**	**2,533**	**2,977**	**3,389**	**18.2%**
United States	5,036	5,784	5,887	6,878	7,276	7,612	8.9%
Asia-Pacific & Middle East	2,059	1,853	1,717	1,846	1,922	2,004	5.3%
Americas & Sub-Saharan Africa	1,842	1,618	1,590	1,846	1,922	1,990	7.8%
Europe & North Africa	2,193	2,110	1,956	1,680	1,865	2,082	2.1%
Adjusted profit from operations	**11,130**	**11,365**	**11,150**	**12,250**	**12,985**	**13,687**	7.1%
United States	48.5%	50.4%	50.4%	53.4%	54.5%	55.4%	
Asia-Pacific & Middle East	40.0%	40.8%	41.0%	41.5%	42.0%	43.0%	
Americas & Sub-Saharan Africa	43.2%	42.9%	41.8%	41.5%	42.0%	42.5%	
Europe & North Africa	36.3%	35.2%	32.6%	30.0%	31.8%	33.8%	
Adjusted profit from operations margin	**43.1%**	**44.1%**	**43.4%**	**44.8%**	**45.8%**	**46.8%**	
Adjusted EBITDA	**12,134**	**12,455**	**11,866**	**13,047**	**13,824**	**14,563**	7.1%
Adjusted Net Income	**7,418**	**7,613**	**7,556**	**8,306**	**8,975**	**9,583**	8.2%
Adjusted EPS, diluted (GBp)	**323.8**	**331.7**	**329.0**	**366.1**	**402.0**	**437.6**	**10.0%**

Source: Company reports, Barclays Research estimates

Balance sheet forecasts

FIGURE 6

Balance sheet summary (all numbers in £mn. Year-end December)

	2019	2020	2021	2022E	2023E	2024E
Inventories	6,094	5,998	5,279	5,498	5,676	5,893
Trade and other receivables	4,093	3,721	3,951	3,829	3,946	3,999
Cash and cash equivalents	2,526	3,139	2,809	3,601	4,574	5,517
Others	561	754	768	768	768	768
Total current assets	**13,274**	**13,612**	**12,807**	**13,696**	**14,964**	**16,177**
Intangible assets	118,787	115,343	115,625	115,115	114,579	114,021
Property, plant and equipment	5,518	5,060	4,953	5,253	5,557	5,865
Investments in associates and joint ventures	1,860	1,796	1,948	1,984	2,024	2,068
Others	1,566	1,879	2,032	2,032	2,032	2,032
Total non-current assets	**127,731**	**124,078**	**124,558**	**124,384**	**124,193**	**123,986**
Total assets	**141,005**	**137,690**	**137,365**	**138,080**	**139,156**	**140,163**
Borrowings	7,562	4,041	3,992	3,992	3,992	3,992
Trade and other payables	9,727	9,693	9,577	9,896	10,449	10,848
Others	1,534	1,744	1,575	1,575	1,575	1,575
Total current liabilities	**18,823**	**15,478**	**15,144**	**15,463**	**16,016**	**16,415**
Borrowings	37804	39927	35666	35166	34666	34166
Deferred tax liabilities	17,050	16,314	16,462	16,337	16,212	16,087
Others	3,168	3,016	2,692	2,692	2,692	2,692
Total non-current liabilities	**58,022**	**59,257**	**54,820**	**54,195**	**53,570**	**52,945**
Total liabilities	**76,845**	**74,735**	**69,964**	**69,658**	**69,586**	**69,360**
Owners of the parent	63,902	62,673	65,416	66,414	67,539	68,748
Non-controlling interests	258	282	300	323	346	369
Total equity	**64,160**	**62,955**	**67,401**	**68,422**	**69,570**	**70,802**
Net Debt	**41,726**	**39,451**	**35,548**	**34,256**	**32,783**	**31,340**
Net Debt/EBITDA	**3.4x**	**3.2x**	**3.0x**	**2.6x**	**2.4x**	**2.2x**
ROIC	**7.6%**	**8.1%**	**8.2%**	**9.0%**	**9.6%**	**10.1%**

Source: Company reports, Barclays Research estimates

Cash flow forecasts

FIGURE 7

Cash flow summary (all numbers in £mn, except per share data. Year-end December)

	2019	2020	2021	2022E	2023E	2024E
Profit from operations	9,016	9,962	10,234	11,750	12,485	13,187
Depreciation, amortisation and impairment costs	1,512	1,450	1,076	1,147	1,189	1,226
Decrease/(Increase) in inventories	(371)	(144)	433	(219)	(178)	(217)
(Increase)/Decrease in trade and other receivables	(699)	300	(393)	122	(117)	(53)
Decrease in provision for Master Settlement Agreement	(124)	369	(36)	-	-	-
(Decrease)/Increase in trade and other payables	730	(320)	183	319	553	399
Dividends received from associates	252	351	353	446	490	539
Tax paid	(2,204)	(2,132)	(2,314)	(2,684)	(2,891)	(3,076)
Others	884	(50)	181	-	-	-
Net cash generated from operating activities	**8,996**	**9,786**	**9,717**	**10,881**	**11,531**	**12,005**
Purchases of property, plant and equipment	(664)	(511)	(527)	(562)	(582)	(600)
Purchases of intangibles	(151)	(244)	(218)	(200)	(200)	(200)
Acquisition of Reynolds American Inc. net of cash acquired	-	-	-	-	-	-
Others	176	(28)	(395)	-	-	-
Net cash used in investing activities	**(639)**	**(783)**	**(1,140)**	**(762)**	**(782)**	**(800)**
Interest paid	(1,601)	(1,737)	(1,479)	(1,513)	(1,420)	(1,383)
Proceeds from increases in and new borrowings	4,247	9,826	978	-	-	-
Reductions in and repayments of borrowings	(5,640)	(10,633)	(4,843)	(500)	(500)	(500)
Dividends paid to owners of the parent	(4,598)	(4,745)	(4,904)	(4,989)	(5,030)	(5,054)
Dividends paid to non-controlling interests	(157)	(136)	(150)	(150)	(150)	(150)
Others	(844)	(472)	1,649	(2,175)	(2,675)	(3,175)
Net cash from/(used in) financing activities	**(8,593)**	**(7,897)**	**(8,749)**	**(9,327)**	**(9,775)**	**(10,262)**
Net Cash Flow	**(236)**	**1,106**	**(172)**	**792**	**973**	**943**
Free Cash flow - Equity	**6,503**	**7,206**	**7,376**	**8,456**	**9,178**	**9,672**
FCF/share (GBp)	**283.8**	**314.0**	**321.1**	**372.8**	**411.1**	**441.7**

Source: Company reports, Barclays Research estimates

Links to previous research

- *Altria/BAT: Nicotine cap rule introduced again by the FDA, 22 Jun 2022*
- *Altria Group Inc.: Int'l expansion needed for innovation, 22 Jun 2022*
- *PM: IQOS vs. glo pricing tracker: v11, 08 Jun 2022*
- *British American Tobacco Plc: E-cig pricing comes to the US market, 07 June 2022*
- *Altria/BAT: Nielsen data: Cigs vol -8.6%, ZYN growth continues, 31 May 2022*
- *Japan Tobacco Inc.: JT: Potential SWMA considerations, 25 May 2022*
- *Imperial Brands Plc: Raises FY22 EPS guidance by 7%, 17 May 2022*
- *Swedish Match: SEK106 is too low a price, 12 May 2022*
- *Swedish Match: Outlining our bull case for SWMA, 10 May 2022*
- *European Consumer Staples: PM in talks to acquire SWMA, 09 May 2022*
- *Tobacco vols set to surprise positively as affordability improves, 06 May 2022*
- *Altria Group Inc.: Resilient in an uncertain environment, 03 May 2022*
- *Philip Morris.: Strong volume driven by improving EU affordability, 26 Apr 2022*
- *Japan Tobacco Inc.: A quintessential ESG UW, 13 Apr 2022*
- *Philip Morris International Inc.: Exploring self-help options, 12 Apr 2022*
- *IMB: In-line FY22 trading update, significant share repurchases ahead, 06 Apr 2022*
- *Vector Group Ltd: Volume gains ahead; upgrade to OW, 31 Mar 2022*
- *BAT: Guidance intact ex discontinued Russia operations, 14 Mar 2022*
- *Global Tobacco: Oil price impact on US cig vols, 03 Mar 2022*
- *Turning Point Brands: Back to the drawing board, 24 Feb 2022*
- *British American Tobacco Plc: £11bn share repurchase over 4 years, 15 Feb 2022*
- *Swedish Match: The break-out year, 18 Jan 2022*
- *British American Tobacco Plc: BAT to accelerate to 9% EPS growth, 10 Jan 2022*
- *22 for 2022 - Tobacco and Cannabis, 05 Jan 2022*
- *SWMA/Altria: Nicotine tax proposal is dropped, 10 Dec 2021*
- *IMB: Reiterates FY22 guidance, double-digit EPS growth from FY23 likely, 16 Nov 2021*
- *2021 NYTS: JUUL, Vuse and blu likely to get tobacco e-cig PMTA's, 01 Oct 2021*
- *TPB: Cheapest play on cannabis growth, 26 Aug 2021*
- *STG: US strength continues but low long-term organic growth, 23 Aug 2021*
- *British American Tobacco Plc: Closing the growth gap vs PM, 30 Jul 2021*
- *Global Tobacco: Global tax plans for HNB and cigs, 23 Jun 2021*
- *US Tobacco: US cig pricing accelerates to 7%+, 18 Jun 2021*
- *PM/BATS: HNB market splits into premium and discount, 09 Jun 2021*

- *Swedish Match: Where do margins go from here?, 04 May 2021*
- *Global Tobacco: Implications of a smoke-free future, 28 Apr 2021*
- *Global Tobacco: Analysing possible implications of a menthol ban, 26 Apr 2021*
- *Philip Morris International Inc.: Secular mid-teen EPS growth, 22 Apr 2021*
- *Global Tobacco: HNB tax advantage vs. cigs in Europe, 13 Apr 2021*
- *British American Tobacco Plc: HNB: Both challenge and opportunity, 19 Mar 2021*
- *Global oral nicotine market - focus on Denmark and Germany, 02 Mar 2021*
- *Philip Morris International Inc.: Double benefit from mix shift, 24 Feb 2021*
- *Philip Morris International Inc.: Can PM re-rate to 20x+ over 3 years?, 19 Jan 2021*
- *Philip Morris International.: Indonesia: A regulatory and ESG problem, 14 Jan 2021*
- *Turning Point Brands: Investing in growth, initiate with OW, 05 Oct 2020*
- *Global Tobacco: Biodiversity in focus, 24 Sep 2020*
- *Swedish Match: ZYN acceleration ahead; u/g to OW, 07 Sep 2020*
- *Global Tobacco: Downgrade Altria and Swedish Match, 08 Jul 2020*
- *Imperial Brands Plc: Less is more, 16 Jun 2020*
- *Tobacco ESG: Sustainability is the strategy, 24 Mar 2020*
- *Vaping epidemic and the fallacy of e-cig flavour bans, 21 Oct 2019*
- *Tobacco: Accelerating disruption; uncertain regulation, 23 May 2019*
- *Mentholetics - Analysing possible implications of a menthol ban, 19 Dec 2018*
- *Smoke Signals 4.0: Kicking the tyres with JUUL, 19 Sep 2018*

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British American Tobacco Plc (BATS.L, 24-Jun-2022, GBp 3531), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M/N

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Beiersdorf AG (BEIG.DE)	British American Tobacco Plc (BATS.L)	Britvic (BVIC.L)
C&C Group (CCR.L)	Canopy Growth Corp (CGC)	Carlsberg AS-B (CARLb.CO)
Chr. Hansen (CHRH.CO)	Coca-Cola Hellenic BC AG (CCH.L)	Corbion (CORB.AS)
Cronos Group Inc. (CRON)	Danone (DANO.PA)	Davide Campari N.V. (CPRI.MI)
Diageo PLC (DGE.L)	Essity (ESSITYb.ST)	Fever-Tree Drinks PLC (FEVR.L)
Glanbia (GL9.I)	Heineken NV (HEIN.AS)	Henkel (HNKG_p.DE)
Imperial Brands Plc (IMB.L)	Japan Tobacco Inc. (JAPAY)	Kerry Group (KYGa.L)
L'Oréal SA (OREP.PA)	Leroy Seafood Group ASA (LSG.OL)	Lindt & Spruengli (LISN.S)
Mowi (MOWI.OL)	Nestle SA (NESN.S)	Ontex Group (ONTEX.BR)
Pernod-Ricard SA (PERP.PA)	Philip Morris International Inc. (PM)	PZ Cussons Plc (PZC.L)
Reckitt Benckiser Group PLC (RB.L)	Rémy Cointreau (RCOP.PA)	Salmar ASA (SALM.OL)
Scandinavian Tobacco Group (STOGR.CO)	Scotts Miracle-Gro (SMG)	Suedzucker AG (SZUG.DE)
Swedish Match (SWMA.ST)	Tate & Lyle (TATE.L)	Tilray Inc. (TLRY)
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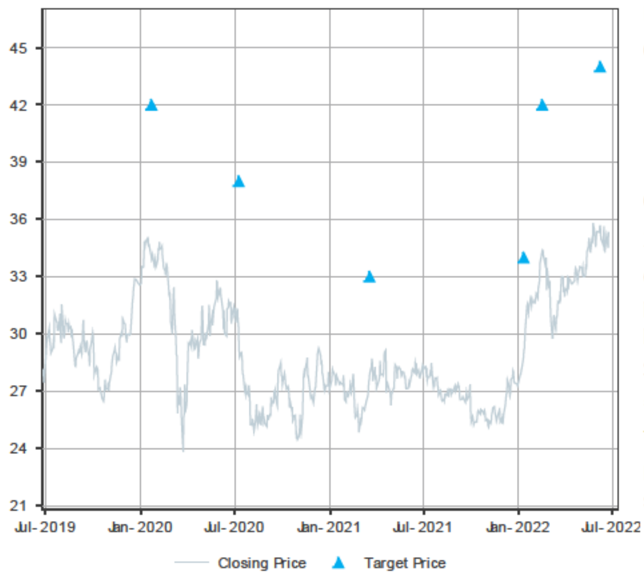
IMPORTANT DISCLOSURES

British American Tobacco Plc (BATS LN / BATS.L) Stock Rating Industry View

GBp 3531 (24-Jun-2022) **OVERWEIGHT** **NEUTRAL**

Rating and Price Target Chart - GBP (as of 24-Jun-2022)



Source: IDC, Barclays Research

Link to Barclays Live for interactive charting

Currency=GBP

Publication Date	Closing Price*	Rating	Adjusted Price Target
07-Jun-2022	35.66		44.00
15-Feb-2022	34.26		42.00
10-Jan-2022	28.69		34.00
18-Mar-2021	27.62		33.00
08-Jul-2020	30.49		38.00
21-Jan-2020	34.13		42.00

On 27-Jun-2019, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 40.00.

Source: Bloomberg, Barclays Research

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Valuation Methodology: We have considered British American Tobacco's valuation using a 1-year P/E-based approach. We derive our target multiple with reference to BAT's tobacco peer group, making adjustments for business mix, leverage and growth prospects.We also dock BAT's FY23E EPS by c1-2% due to constant restructuring charges of c£150mn as well as consolidation of Canadian subsidiary, which is under the Companies Creditor Agreement (CCA) Applying a ~11x multiple results in our rounded price target of 4400p.

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IDEA

July 5, 2022 04:00 AM GMT

British American Tobacco PLC | Europe

1H22 Preview: Regulation Clouding Strong Fundamentals

Stock Rat ng	Industry V ew	Pr ce Target
Overweight	In-Line	4,000p

Despite recent regulatory headlines, NGP momentum remains strong and is quickly becoming the key valuation driver for the stock, leaving room for a multi-year re-rating story. Reiterate Overweight.

WHAT'S CHANGED	British American Tobacco PLC (BATS.L)	From	To
	P ce Ta get	3,780p	**4,000p**

We revisit our Overweight thesis on BAT n l ght of recent regulatory developments and prev ew the H1 results due July 27. BAT rema ns our preferred EU Tobacco p ck as we bel eve () US c garette share losses are w dely understood by nvestors ( ) BAT's valuat on levels are qu ckly becom ng more closely l nked to NGP performance vs cycl cal c garette share changes and ( ) the valuat on read-across from Ph l p Morr s' proposed Swed sh Match deal suggests BAT's NGP potent al rema ns underapprec ated based on our SOTP analys s. Near term our 1H forecasts are n l ne w th consensus (see ns de) and our Y22/23e net prof t s +1% ahead of consensus. At 9x 23e P/E the stock has some way to close ts respect ve >20% and ~45% valuat on d scount to MSC EU and Ph l p Morr s offer ng mult -year re-rat ng potent al as ts NGP bus ness cont nues to develop.

Regulatory headlines: Mixed impact for BAT. Several regulatory headl nes n recent weeks have left nvestors try ng to assess the potent al mpl cat ons for BAT: () JUUL's Market ng Den al Orders ("MDO") ( ) UK regulat on ( ) the EU's proposed ban on HNB flavours and (v) n cot ne reduct on n the US. Overall we v ew () and ( ) as pos t ves to the BAT story potent ally accelerat ng NGP performance further. We cons der ( ) as broadly neutral g ven potent al future EU leg slat on on flavoured e-c garettes and (v) a potent al headw nd although w th s gn f cant uncerta nt es around mplementat on and t mel ne. More ns de.

US cigarettes: Expect weaker FY22 vs history, but largely priced in. We expect 1H22 US c garette volumes to come n l ne w th h stor cal trends (MSe -5% vs consensus -7.5%) as de-stock ng and lower ndustry volumes are partly offset by BAT's nventory load ng ahead of ts planned SAP ntegrat on. We expect the major ty of the nventory unw nd to mpact 2H22 and along w th potent ally lower ndustry volumes we forecast Y22 BAT US c garette volumes of -8.0% (sl ghtly below consensus at -7.4%). As outl ned n a recent note by Pam Kaufman here we now forecast Y22 US ndustry volumes at -7.5%. Our BAT volume

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British American Tobacco PLC (BATS.L, BATS LN)

Tobacco / United Kingdom

Stock Rating	**Overweight**
Industry View	**In Line**
Price target	**4,000p**
Shr price, c ose (Ju , 2022)	3,536p
Mkt cap, curr (mn)	£8 ,2 0
52 Week Range	3,645 2,508p

Fiscal Year Ending	**12/21**	**12/22e**	**12/23e**	**12/24e**
ModelWare EPS (p)	**329.2**	**363.3**	**394.8**	**424.2**
P/E	**8.3**	**9.7**	**9.0**	**8.3**
EV/EB TDA	8 0	8 6	8	7 6
Sa es / Revenue (£mn)**	25,684	27,65	28,684	29,790
EB TDA (£mn)	2,232	3,348	4,002	4,64
EB T (£mn)	, 56	2, 86	2,797	3,390
EV/revenue*	3 9	4 2	4 0	3 8
DPS (p)	2 7 8	236 2	256 6	275 7
Div y d (%)	8 0	6 7	7 3	7 8
FCF y d ratio (%)**	8 2	0 3	3 6	4 5
RNOA (%)**	8 2	9 0	9 3	9 8
ROE (%)**	2	2 3	3	3 8

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
= GAAP or approximated based on GAAP
= Based on consensus methodology
e = Morgan Stanley Research estimates

est mates reflect a potent al accelerat on n downtrad ng n 2H22 result ng n sl ght share losses.

NGP momentum remains key. We cont nue to bel eve that NGP performance s qu ckly becom ng the key stock valuat on dr ver for BAT as t () transforms BAT's growth algor thm to a cons stent +MSD% organ c grower ( ) partly de-r sks regulatory concerns n ts combust bles portfol o and ( ) offsets secularly decl n ng c garette volumes. Wh le New Categor es generated just ~8% of BAT's Y21 revenue non-combust bles contr buted nearly half of BAT's +6.9% organ c growth for the year. We expect cont nued top-l ne momentum n New Categor es n 1H22 (MSe +36%) dr ven by strength n US vapour European Modern Oral and EU / As a HNB. We expect nvestors ncreas ngly to also focus on NGP marg n progress on go ng forward as BAT starts d sclos ng NGP prof tab l ty start ng w th 1H22 results.

Model Updates. We update our model to reflect a weaker Y22 US c garette volume outlook partly offset by h gher NGP revenues (e.g. US e-c garettes n 2H22). We also ref ne our ENA est mates to reflect the ant c pated Russ a ex t update X and other m nor adjustments. The result of these changes s a +5% upgrade to Y22 EPS (largely X M2M) w th MSe Net Prof t for Y22/23 s tt ng +1% ahead of consensus. We ra se our PT to GBp 4 000 broadly n l ne w th our EPS upgrade. We stay Overwe ght.

Relevant Research:

Tobacco Debates: JUUL & N cot ne Reduct on Ep. 5

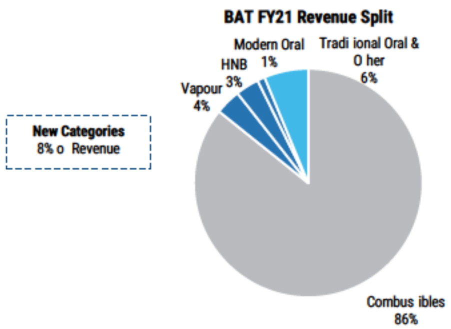
Tobacco Debates: UK Regulat on Update Ep. 4

Tobacco Debates: Altr a Downgrade to UW Ep. 3

Swed sh Match Announcement Underscores BAT's Potent al

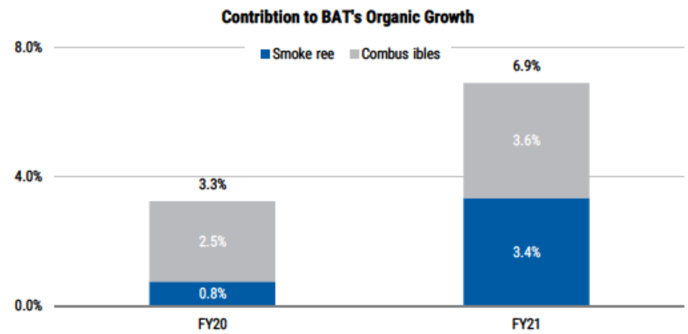
Key Charts

Exhibit 1: Non-combust b es represented ~14% of BAT's FY21 revenue



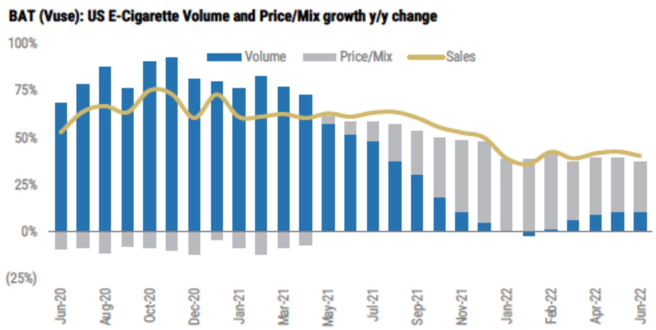
Source: Company reports

Exhibit 2: ... but contr buted ~50% of BAT's FY21 OSG, up from ~25% n FY20



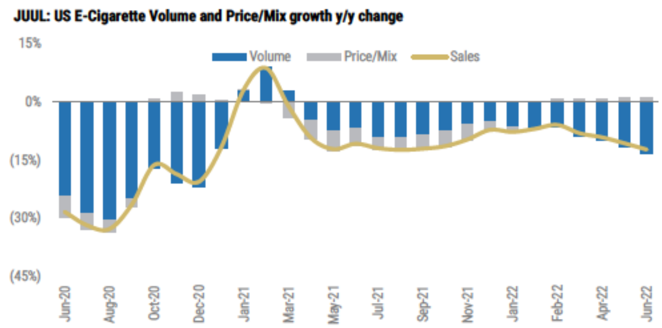
Source: Company reports, Morgan Stanley Research

Exhibit 3: BAT (Vuse) has been successfu y tak ng pr c ng wh e acce erat ng vo umes n recent months



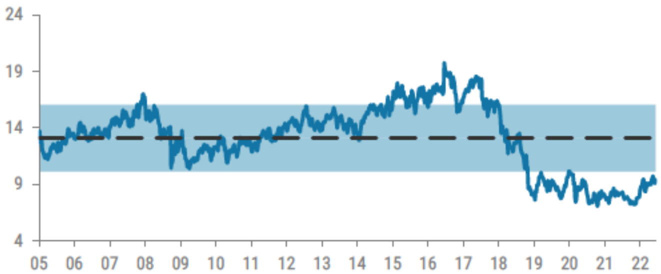
Source: Nielsen

Exhibit 4: ... whereas JUUL has faced acce erated vo ume dec nes desp te m n ma pr c ng act on



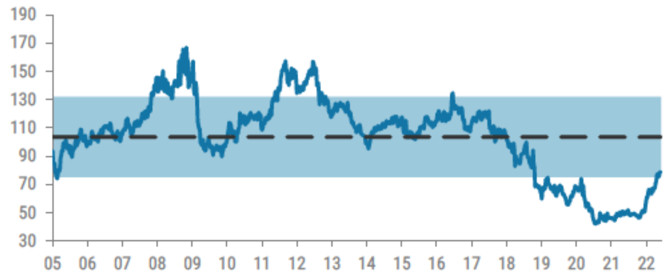
Source: Nielsen

Exhibit 5: BAT Abso ute P/E Desp te a YTD ra y, abso ute P/E rema ns near a -t me ows



Source: Thomson Reuters, Morgan Stanley Research

Exhibit 6: BAT Re at ve to EU MSCI NGP acce erat on w be key for further re-rat ng



Source: Thomson Reuters, Morgan Stanley Research

Global Tobacco Trading Comparables

Exhibit 7: G oba obacco rad ng Comparab es

1-Jul-22	Listed CCY	Price Close	Market cap (€bn)	MS Rating	Price Target	Upside	P/E (x)			EPS growth (%)			CAGR CY21-24e	OFCF yield (%)			EV/EBITDA (x)			EV/EBIT (x)			EV/NOPAT (x)			Dividend yield (%)		
							CY22	CY23	CY24	CY22	CY23	CY24		CY22	CY23	CY24	CY22	CY23	CY24	CY22	CY23	CY24	CY22	CY23	CY24	CY22	CY23	CY24
MSCI Europe							**11.8**	**11.5**	**10.8**	**14.1%**	**3.4%**	**5.7%**	**7.6%**													**3.7%**	**3.9%**	**4.1%**
Europe			**129.6**				**9.8**	**9.1**	**8.5**	**7.1%**	**8.1%**	**7.4%**	**7.5%**	**9.9%**	**12.6%**	**13.1%**	**8.9**	**8.4**	**8.0**	**9.5**	**9.0**	**8.5**	**14.5**	**13.5**	**12.8**	**6.3%**	**6.8%**	**7.2%**
British American Tobacco	GBp	3,536	94 2	OW	4,000	13%	9 7	9 0	8 3	7 6%	8 7%	7 4%	7 9%	10 2%	13 2%	13 7%	9 0	8 5	7 9	9 6	9 0	8 4	14 4	13 4	12 6	6 7%	7 3%	7 8%
Imperial Brands	GBp	1,836	20 2	EW	2,000	9%	7 0	6 7	6 3	5 0%	4 5%	6 8%	5 4%	12 1%	16 3%	16 6%	6 8	6 6	6 4	7 3	7 1	6 9	12 2	11 3	11 0	7 7%	7 7%	7 8%
Swedish Match	SEK	105	15 2	EW	106	1%	24 0	20 7	18 7	9 3%	15 8%	10 4%	11 8%	4 7%	4 6%	4 9%	18 5	16 6	15 5	20 1	18 0	17 0	26 1	23 4	22 0	2 1%	2 4%	2 7%
MSCI US							**17.0**	**15.5**	**14.3**	**9.6%**	**9.9%**	**8.5%**	**9.3%**													**1.7%**	**1.8%**	**1.9%**
US			**263.3**				**12.4**	**11.4**	**10.8**	**6.2%**	**9.6%**	**6.5%**	**7.2%**	**5.4%**	**6.2%**	**6.5%**	**12.4**	**11.5**	**10.8**	**13.5**	**12.6**	**11.9**	**18.9**	**17.5**	**16.5**	**6.7%**	**7.0%**	**7.3%**
Altria	USD	42	114 2	EW	43	2%	8 9	8 3	8 0	12 5%	6 3%	4 0%	7 5%	5 1%	6 3%	6 3%	11 3	10 7	10 4	12 2	11 8	11 5	19 0	18 3	17 9	8 8%	9 3%	9 8%
Philip Morris	USD	100	149 1	OW	112	12%	17 9	15 9	14 6	-0 2%	12 8%	8 6%	6 9%	5 7%	6 2%	6 6%	13 5	12 1	11 2	14 8	13 2	12 2	18 8	16 8	15 5	5 1%	5 2%	5 4%
MSCI World							**14.6**	**13.5**	**12.6**	**11.2%**	**7.7%**	**7.3%**	**8.7%**													**2.4%**	**2.5%**	**2.7%**
ROW			**82.9**				**14.6**	**14.3**	**13.3**	**5.2%**	**4.1%**	**7.9%**	**5.4%**	**6.4%**	**7.0%**	**7.5%**	**8.7**	**8.3**	**4.6**	**13.3**	**12.6**	**11.4**	**17.7**	**16.7**	**15.2**	**5.3%**	**5.6%**	**5.9%**
Japan Tobacco	JPY	2,291	32 4	NC	NC	NC	11 5	11 6	10 8	-3 6%	-0 8%	7 1%	0 8%	8 7%	9 0%	9 7%	6 3	5 9	NA	NA	NA	NA	NA	NA	NA	6 6%	6 7%	6 9%
KT&G	KRW	82,100	8 3	EW	90,000	10%	10 5	11 1	11 0	4 1%	-5 3%	1 6%	0 0%	7 4%	8 8%	8 9%	5 5	5 6	5 3	6 3	6 4	6 0	8 3	8 4	8 0	6 1%	6 3%	6 6%
ITC	INR	284	42 2	OW	293	3%	20 3	18 7	16 9	16 5%	12 6%	10 7%	13 2%	4 4%	5 0%	5 7%	15 0	13 6	12 2	16 4	14 8	13 2	21 9	19 8	17 7	4 1%	4 6%	5 0%
Global Tobacco			**475.7**				**11.9**	**11.0**	**10.3**	**6.4%**	**8.3%**	**7.0%**	**7.1%**	**5.7%**	**6.4%**	**6.7%**	**10.5**	**9.8**	**8.8**	**11.8**	**11.1**	**10.4**	**17.0**	**15.9**	**14.9**	**6.3%**	**6.7%**	**7.0%**

Source Thomson Reuters, Morgan Stanley Research estimates Note OFCF yield (%) defined as FCFE yield for European-based companies and OFCF yield for international firms

Implications of Recent Regulatory News

We summa ze key ecent egulato y headl nes and potent al mpl cat ons fo BAT

JUUL's MDOs (+)

What's the latest? S nce the DA ordered JUUL's products off the market a court granted JUUL's request for a temporary stay on the order the follow ng day allow ng t to keep ts products on the market. On 28 June JUUL f led for a formal stay seek ng to keep ts products on the market throughout ts appeal process.

Implications for BAT: As we h ghl ghted n a recent tobacco podcast ***if JUUL is successful in keeping its products on the market, the negative perception from the news could still see BAT taking further share from JUUL,*** n our v ew. BAT s the market leader n US e-c garettes w th ~35% share sl ghtly ahead of JUUL at ~33%. We ra se our BAT US Vapour revenue growth est mates n 2H22 from ~+35% to ~+55% to reflect accelerated share ga ns. We now forecast Y22 US Vapour revenue of £892M or ~32% of BAT's aggregate New Category Revenue (vs 27% of total n Y21). Each ncremental 5% of US Vapour growth contr butes ~15bps to BAT's aggregate OSG (.e. +30% y/y growth contr butes ~100bps of Group OSG per our est mates). ***If JUUL is unsuccessful in its request for a formal stay and its products are taken off the market, even temporarily, we would expect BAT to rapidly consolidate market share beyond our base case assumptions,*** g ven ts scale and d str but on capab l t es.

UK Tobacco Laws (+)

What happened? An ndependent comm ss on rev ew on 9 June made several pol cy recommendat ons n order to help England ach eve ts 2030 smokefree amb t ons. Ch ef among those s the promot on of vap ng as an effect ve tool to help smokers qu t along w th a recommendat on to ncrease the legal age to purchase a tobacco product by one year every year unt l no one can purchase a tobacco product.

Implications to BAT: BAT s the market leader n UK e-c garettes w th ~12% share at Y21 and a d stant th rd n c garette volume share w th ~9% (MB s the c garette market leader w th ~44% share). The UK overall represents <1% BAT's group revenue. As we d scuss n a recent tobacco podcast ***we think the promotion of vaping can help accelerate BAT's positioning in the UK and help it take tobacco share from cigarette leaders over time.*** t s not clear that the legal age recommendat on w ll get government support n th s form. We have not yet made adjustments to our base case related to any changes n UK tobacco regulat on g ven the early stages of th s recommendat on.

EU HNB Flavour Ban (~)

What happened? On 29 June the EU's execut ve branch proposed a ban on the sale of flavoured heated tobacco products n the EU. The Counc l and Parl ament w ll debate the Comm ss on's proposal before t comes nto force 20 days after the publ cat on n the Off c al Journal. EU countr es w ll then have 8 months to transpose the d rect ve nto nat onal law and a further 3 months before the prov s ons w ll apply (.e. unl kely to come nto play unt l later n 2023).

Implications for BAT: BAT's glo EU volume represents ~15% of global glo volume. ~50% of glo's EU volume s flavoured var ants nclud ng menthol. Apply ng the same proport on to revenue suggests EU flavoured HNB represents low to MSD% of BAT's New Category Portfol o – relat vely mmater al n our v ew. Wh le th s could d rect some consumers towards flavoured vapour nstead where BAT s a leader n key European markets (e.g. rance Germany Belg um UK) we note the poss b l ty of EU leg slat on target ng flavoured vapour as part of the TPD3 proposal expected later th s year. n such an event we would expect most consumers to sw tch to non-flavoured var ants of the r product of cho ce a s m lar dynam c to what was observed when the EU banned menthol n c garettes n 2020.

Nicotine Reduction (-)

What happened? On 22 June the DA nd cated plans to publ sh a proposed rule to set a max mum n cot ne level n c garettes n May 2023.

Implications to BAT: The DA's t mel ne suggests a proposed rule s not mm nent and we would not be surpr sed to see delays g ven the complex ty of the regulat on. We would expect a protracted process relat ve to the average 2-3 year t me frame from proposed to f nal rules. Note that a proposed rule s not an nd cat on that a f nal rule w ll def n tely be ssued. ***Given the uncertainty around implementation, we update our bear case to reflect a potential nicotine reduction scenario through our terminal growth rate (we now use -3.0% vs -1.5% in our base case).***

Model Summary

Exhibit 8: BAT MS vs VA Consensus

BAT (GBPm) As of 04 Jul 2022	1H22E MSe	1H22E Cons	1H22E Δ	FY22E MSe	FY22E Cons	FY22E Δ	FY23E MSe	FY23E Cons	FY23E Δ	FY24E MSe	FY24E Cons	FY24E Δ
Sales	**12,790**	**12,699**	**0.7%**	**27,651**	**27,051**	**2.2%**	**28,684**	**28,317**	**1.3%**	**29,790**	**29,436**	**1.2%**
Reported growth	5 1%	4 3%	73 bps	7 7%	5 2%	243 bps	3 7%	4 6%	-89 bps	3 9%	4 0%	-14 bps
United States	8 8%	8 9%	-12 bps	11 8%	10 5%	125 bps	4 6%	5 5%	-90 bps	4 0%	4 4%	-37 bps
APME (Asia-Pacific and Middle East)	2 0%	-0 7%	270 bps	2 9%	3 6%	-70 bps	2 5%	3 6%	-115 bps	2 2%	2 7%	-48 bps
AMSSA (Americas and Sub-Saharan Africa)	13 1%	8 7%	443 bps	15 3%	11 6%	369 bps	3 7%	5 5%	-182 bps	3 0%	4 1%	-110 bps
ENA (Europe and North Africa)	-5 5%	-5 0%	-45 bps	-1 8%	-8 6%	677 bps	2 8%	2 5%	27 bps	5 4%	3 6%	185 bps
New Categories Revenue	**1,198**	**1,163**	**3.0%**	**2,800**	**2,607**	**7.4%**	**3,625**	**3,236**	**12.0%**	**4,450**	**3,919**	**13.5%**
Organic growth	**3.1%**	**2.1%**	**99 bps**	**2.3%**	**2.2%**	**10 bps**	**4.4%**	**3.6%**	**83 bps**	**4.5%**	**3.8%**	**78 bps**
United States	3 2%	3 4%	-17 bps	3 9%	4 0%	-14 bps	4 6%	3 9%	67 bps	4 0%	3 7%	30 bps
APME (Asia-Pacific and Middle East)	4 0%	-0 1%	406 bps	4 1%	2 7%	144 bps	3 7%	3 2%	49 bps	3 4%	3 0%	43 bps
AMSSA (Americas and Sub-Saharan Africa)	5 3%	3 9%	139 bps	5 4%	4 8%	53 bps	5 5%	4 9%	56 bps	4 8%	4 8%	7 bps
ENA (Europe and North Africa)	0 6%	0 8%	-20 bps	-4 0%	-3 1%	-84 bps	3 7%	2 4%	135 bps	6 3%	3 2%	312 bps
FX	2 0%	1 9%	7 bps	5 3%	3 5%	183 bps	-0 7%	1 1%	-183 bps	-0 7%	0 1%	-77 bps
Volume - Combustibles	**296**	**274**	**8.2%**	**582**	**586**	**-0.6%**	**553**	**562**	**-1.7%**	**533**	**517**	**3.0%**
United States	33	32	3 4%	64	65	-1 0%	60	61	-0 7%	57	57	-0 5%
APME (Asia-Pacific and Middle East)	104	103	1 0%	200	200	0 0%	194	194	-0 2%	188	188	-0 1%
AMSSA (Americas and Sub-Saharan Africa)	69	68	1 2%	144	143	0 1%	139	140	-0 4%	135	136	-0 6%
ENA (Europe and North Africa)	89	70	27 9%	175	178	-1 6%	159	167	-5 0%	153	136	12 5%
Volume growth -Combustibles	**-9.0%**	**-15.9%**	**690 bps**	**-11.1%**	**-10.6%**	**-52 bps**	**-5.1%**	**-4.0%**	**-108 bps**	**-3.6%**	**-8.0%**	**442 bps**
Adjusted Operating Profit	**5,561**	**5,520**	**0.8%**	**12,186**	**11,925**	**2.2%**	**12,797**	**12,634**	**1.3%**	**13,390**	**13,269**	**0.9%**
Margin	**43.5%**	**43.5%**	**2 bps**	**44.1%**	**44.1%**	**-1 bps**	**44.6%**	**44.6%**	**0 bps**	**44.9%**	**45.1%**	**-13 bps**
Underlying Net Profit	**3,766**	**3,760**	**0.2%**	**8,248**	**8,131**	**1.4%**	**8,763**	**8,682**	**0.9%**	**9,218**	**9,200**	**0.2%**
Underlying EPS - Diluted	**164.9**	**165.1**	**-0.1%**	**363.3**	**359.6**	**1.0%**	**394.8**	**394.6**	**0.1%**	**424.2**	**428.1**	**-0.9%**
DPS	107 2	108 7	-1 4%	236 2	230 7	2 4%	256 6	248 1	3 5%	275 7	268 4	2 7%

Source: Morgan Stanley Research estimates (E); Consensus source Visible Alpha as at 4 July 2022

Exhibit 9: MS New vs O d Est mates for BAT

BAT (GBPm)	FY22E			FY23E			FY24E		
New vs Old Estimates	New	Old	Δ	New	Old	Δ	New	Old	Δ
Sales	**27,651**	**26,302**	**5.1%**	**28,684**	**27,343**	**4.9%**	**29,790**	**28,369**	**5.0%**
Reported growth	7 7%	2 4%	525 bps	3 7%	4 0%	-22 bps	3 9%	3 8%	10 bps
United States	11 8%	7 8%	393 bps	4 6%	3 7%	95 bps	4 0%	4 0%	2 bps
APME (Asia-Paci ic and Middle East)	2 9%	4 1%	-117 bps	2 5%	2 5%	0 bps	2 2%	2 2%	0 bps
AMSSA (Americas and Sub-Saharan A rica)	15 3%	10 7%	458 bps	3 7%	4 1%	-44 bps	3 0%	3 0%	0 bps
ENA (Europe and North A rica)	-1 8%	-14 6%	1272 bps	2 8%	5 8%	-305 bps	5 4%	5 1%	28 bps
Organic growth	**2.3%**	**2.6%**	**-31 bps**	**4.4%**	**4.6%**	**-22 bps**	**4.5%**	**4.4%**	**10 bps**
United States	3 9%	3 3%	57 bps	4 6%	3 7%	95 bps	4 0%	4 0%	2 bps
APME (Asia-Paci ic and Middle East)	4 1%	4 1%	0 bps	3 7%	3 7%	0 bps	3 4%	3 4%	0 bps
AMSSA (Americas and Sub-Saharan A rica)	5 4%	4 5%	88 bps	5 5%	5 9%	-44 bps	4 8%	4 8%	0 bps
ENA (Europe and North A rica)	-4 0%	-1 0%	-298 bps	3 7%	6 8%	-305 bps	6 3%	6 1%	28 bps
M&A	0 0%	0 0%	0 bps	0 0%	0 0%	0 bps	0 0%	0 0%	0 bps
FX	5 3%	-0 2%	556 bps	-0 7%	-0 7%	0 bps	-0 7%	-0 7%	0 bps
Adjusted Operating Profit	**12,186**	**11,674**	**4.4%**	**12,797**	**12,459**	**2.7%**	**13,390**	**13,028**	**2.8%**
Margin	**44.1%**	**44.4%**	**-31 bps**	**44.6%**	**45.6%**	**-95 bps**	**44.9%**	**45.9%**	**-97 bps**
United States	51 3%	51 3%	1 bps	52 0%	51 9%	1 bps	52 4%	52 4%	1 bps
APME (Asia-Paci ic and Middle East)	42 0%	42 0%	0 bps	42 3%	42 5%	-20 bps	42 6%	42 8%	-20 bps
AMSSA (Americas and Sub-Saharan A rica)	42 8%	42 8%	1 bps	43 4%	43 4%	1 bps	44 0%	44 0%	1 bps
ENA (Europe and North A rica)	30 5%	30 7%	-24 bps	30 6%	34 5%	-384 bps	30 7%	34 6%	-384 bps
Underlying Net Profit	**8,248**	**7,864**	**4.9%**	**8,763**	**8,508**	**3.0%**	**9,218**	**8,944**	**3.1%**
Underlying EPS - Basic	**364.9**	**348.5**	**4.7%**	**396.6**	**386.9**	**2.5%**	**426.1**	**416.7**	**2.3%**
Underlying EPS - Diluted	**363.3**	**346.9**	**4.7%**	**394.8**	**385.2**	**2.5%**	**424.2**	**414.8**	**2.3%**
- growth	10 4%	5 5%	498 bps	8 7%	11 0%	-235 bps	7 4%	7 7%	-26 bps
DPS	236	226	4 7%	257	250	2 5%	276	270	2 3%
- payout (underlying)	65%	65%	0 bps	65%	65%	0 bps	65%	65%	0 bps

Source: Morgan Stanley Research estimates (E)

Exhibit 10: BAT Income Statement Summary

BAT Income Statement (GBPm)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Sales	**24,492**	**25,877**	**25,776**	**25,684**	**27,651**	**28,684**	**29,790**	**31,011**
Reported Growth	25 2%	5 7%	-0 4%	-0 4%	7 7%	3 7%	3 9%	4 1%
M&A	27 5%	–	–	–	–	–	–	–
FX	-5 8%	0 6%	-3 5%	-7 3%	5 3%	-0 7%	-0 7%	-0 7%
Organic Growth	**3.5%**	**5.6%**	**3.3%**	**6.9%**	**2.3%**	**4.4%**	**4.5%**	**4.8%**
Gross Profit	18 904	19 928	20 188	20 226	21 789	22 631	23 534	24 530
Margin	77 2%	77 0%	78 3%	78 7%	78 8%	78 9%	79 0%	79 1%
Adjusted Operating Profit	**10,347**	**11,130**	**11,365**	**11,150**	**12,186**	**12,797**	**13,390**	**14,004**
Reported Growth	30 5%	7 6%	2 1%	-1 9%	9 3%	5 0%	4 6%	4 6%
Margin	**42.2%**	**43.0%**	**44.1%**	**43.4%**	**44.1%**	**44.6%**	**44.9%**	**45.2%**
Margin Change	172 bps	76 bps	108 bps	(68) bps	66 bps	54 bps	34 bps	21 bps
Adjusted EBITDA	**10,850**	**11,904**	**12,116**	**11,874**	**12,966**	**13,605**	**14,230**	**14,879**
Margin	44 3%	46 0%	47 0%	46 2%	46 9%	47 4%	47 8%	48 0%
Net Finance Expense	(1 381)	(1 602)	(1 745)	(1 486)	(1 502)	(1 517)	(1 541)	(1 568)
- rate	3 1%	3 8%	4 3%	4 0%	4 2%	4 1%	4 2%	4 2%
Adj Share of post-tax results of associates and JVs	387	473	442	427	475	543	571	599
Underlying PBT	**9,349**	**10,081**	**10,215**	**10,146**	**11,159**	**11,823**	**12,420**	**13,035**
Adjusted tax	(2 364)	(2 501)	(2 430)	(2 399)	(2 671)	(2 820)	(2 962)	(3 109)
- tax rate	26 4%	26 0%	24 9%	24 7%	25 0%	25 0%	25 0%	25 0%
Underlying Net Profit	**6,801**	**7,418**	**7,613**	**7,556**	**8,248**	**8,763**	**9,218**	**9,686**
Net Profit	6 032	5 704	6 400	6 789	6 999	7 472	7 877	8 291
Underlying EPS - Basic	**297.64**	**324.8**	**333.0**	**330.4**	**364.9**	**396.6**	**426.1**	**458.8**
Underlying EPS - Diluted (MW)	**296.73**	**323.8**	**331.7**	**329.0**	**363.3**	**394.8**	**424.2**	**456.7**
Reported Growth	5 2%	9 1%	2 4%	-0 8%	10 4%	8 7%	7 4%	7 7%
DPS	203 00	210 4	215 6	217 8	236 2	256 6	275 7	296 8
- payout (underlying)	68%	65%	65%	66%	65%	65%	65%	65%

Source: Company reports, Morgan Stanley Research estimates (E)

Exhibit 11: BAT Cash F ow Statement Summary

BAT Cash Flow (GBPm)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Profit from operations	9 313	9 016	9 962	10 234	11 187	11 764	12 318	12 888
Depreciation amortisation and impairment	1 038	1 512	1 450	1 076	1 161	1 205	1 251	1 302
ncrease in inventories	(192)	(371)	(144)	433	(1 634)	(258)	(276)	(305)
Decrease/(increase) in trade and other recievables	502	(699)	300	(393)	(197)	(155)	(166)	(183)
Other		1 490	(1)	328	930	392	420	464
Cash generated from operating activities	**11,972**	**10,948**	**11,567**	**11,678**	**11,449**	**12,948**	**13,547**	**14,166**
Dividends received from associates	214	252	351	353	475	543	571	599
Tax paid	(1 891)	(2 204)	(2 132)	(2 314)	(2 921)	(3 078)	(3 231)	(3 388)
Net cash generated from operating activities	**10,295**	**8,996**	**9,786**	**9,717**	**9,002**	**10,414**	**10,887**	**11,377**
nterest received	52	80	48	33	22	19	27	31
Purchases of property plant and equipment	(758)	(664)	(511)	(527)	(488)	(506)	(526)	(547)
Purchases of intangibles	(185)	(151)	(244)	(218)	(207)	(215)	(223)	(233)
Purchases of investments	(320)	(191)	(343)	(369)	(359)	(373)	(387)	(403)
Other		287	267	(59)	–	–	–	–
Net cash used in investing activities	**(1,021)**	**(639)**	**(783)**	**(1,140)**	**(1,033)**	**(1,075)**	**(1,110)**	**(1,152)**
nterest paid	(1 559)	(1 601)	(1 737)	(1 479)	(1 502)	(1 517)	(1 541)	(1 568)
nterest element of lease liabilities	–	(32)	(26)	(23)	(23)	(23)	(23)	(23)
Capital element on lease liabilities	–	(154)	(164)	(154)	(154)	(154)	(154)	(154)
Proceeds from increases in and new borrowings	2 111	4 247	9 826	978	–	1 000	1 000	1 000
Purchases of own shares (ownership trusts)	(139)	(117)	(18)	(82)	(2 000)	(2 000)	(2 000)	(3 000)
Reductions in repayments of borrowings	(5 596)	(5 640)	(10 633)	(4 843)	–	–	–	–
Dividends paid to owners of the parent	(4 347)	(4 598)	(4 745)	(4 904)	(5 338)	(5 670)	(5 964)	(6 266)
Other		(698)	(400)	83	(173)	(173)	(173)	(173)
Net cash used in financing activities	**(9,630)**	**(8,593)**	**(7,897)**	**(8,749)**	**(9,257)**	**(8,604)**	**(8,922)**	**(10,252)**
Change in Cash and Cash equivalents	**(356)**	**(236)**	**1,106**	**(172)**	**(1,287)**	**734**	**856**	**(27)**
Differences on exchange	(138)	(57)	(253)	(253)	–	–	–	–
Increase/(decrease) in net cash & equivalents	(494)	(293)	853	(425)	(1 287)	734	856	(27)
Net cash and cash equivalents BoP	2 822	2 328	2 035	2 888	2 463	1 176	1 909	2 765
Net cash and cash equivalents, EoP	**2,328**	**2,035**	**2,888**	**2,463**	**1,176**	**1,909**	**2,765**	**2,738**

Source: Company reports, Morgan Stanley Research estimates (E)

Exhibit 12: BAT Ba ance Sheet Summary

BAT Balance Sheet (GBPm)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Current Assets	12 655	13 274	13 612	12 807	13 350	14 497	15 795	16 257
Non-Current Assets	133 687	127 731	124 078	124 558	124 452	124 341	124 226	124 107
Total Assets	**146,342**	**141,005**	**137,690**	**137,365**	**137,802**	**138,838**	**140,021**	**140,364**
Current Liabilities	16 329	18 823	15 478	15 144	16 074	16 467	16 887	17 351
Non-Current Liabilities	64 325	58 022	59 257	54 820	54 643	55 466	56 289	57 112
Net Assets	**65,688**	**64,160**	**62,955**	**67,401**	**67,084**	**66,905**	**66,845**	**65,900**
Shareholders' Equity	**65,444**	**63,902**	**62,673**	**65,416**	**65,099**	**64,920**	**64,860**	**63,915**
Non-controlling interests	244	258	282	300	300	300	300	300
Net Debt	*43,407*	*41,726*	*39,451*	*35,548*	*36,734*	*36,891*	*36,919*	*37,824*
Adj. EBITDA	*10,850*	*11,904*	*12,116*	*11,874*	*12,966*	*13,605*	*14,230*	*14,879*
Net Debt/ Adj. EBITDA	*4.0x*	*3.5x*	*3.3x*	*3.0x*	*2.8x*	*2.7x*	*2.6x*	*2.5x*
Gearing (Net Debt/ Equity)	*0.7x*	*0.7x*	*0.6x*	*0.5x*	*0.6x*	*0.6x*	*0.6x*	*0.6x*
FCFE	*5,867*	*6,788*	*8,224*	*5,107*	*8,307*	*10,692*	*11,138*	*11,597*

Source: Company reports, Morgan Stanley Research estimates (E)

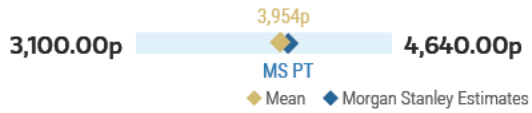
Risk Reward – British American Tobacco PLC (BATS.L)

Increasing NGP Focus

PRICE TARGET 4,000p

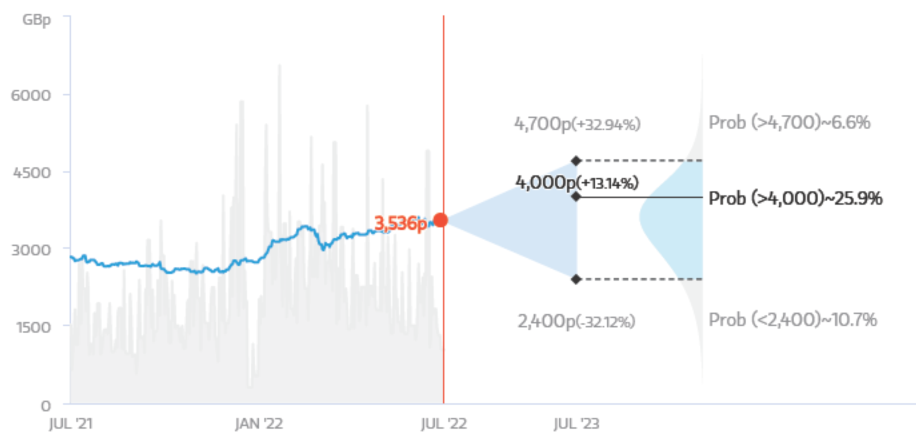
We reach a DCF valuation of 4,330p using a WACC of 9.0% and terminal growth of -1.5%. We reach a multiple-based valuation of 3,730p using a target P/E of 9.5x on 2023e EPS. The modest assumed premium in the multiple vs recent historical levels reflects recent strength across its NGP portfolio in the US and Europe. Taking a rounded average of the two approaches gives us a PT of 4,000p.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



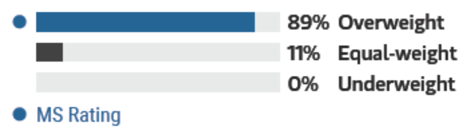
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 01 Jul, 2022. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- We see BAT's user base continuing to grow globally, driven largely by growth in its NGP portfolio, particularly in US vaping, which could offset a potential flavour ban on its combustibles portfolio (e.g., US menthol).
- Our rating reflects strong near-term earnings visibility in an uncertain environment. We estimate 5.5% net profit CAGR over 2022-25. We forecast ~£5bn in NGP revenues by 2025 (in line with BAT's £5bn ambition by 2025).
- We see an opportunity for a re-rating in BAT's multiple as it demonstrates sustained success and share gains across its NGP portfolio, narrowing the gap to best-in-class peers SWMA and PMI.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Disruption: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE 4,700p

~11x bull case 2023e EPS

Accelerated NGP growth; strong cigarette prices. We assume BAT captures meaningful share of the global NGP market and profits. We model a successful global vaping and modern oral portfolio and sustained strength in EM combustibles. We forecast ~5% top-line CAGR in 2022-25e, ~6% operating profit and ~7% earnings growth. Our bull case valuation assumes BAT re-rates on strength of NGP. Share buybacks up to 3x leverage assumed (same as base case)

BASE CASE 4,000p

~10x base case 2023e EPS

Strong growth in NGP; financial flexibility. We forecast ~4% topline, ~5% operating profit and ~5.5% net profit CAGR over 2022-25, driven by strong pricing, lower NGP investment headwinds and strong cost saving delivery. We forecast -8.0% cigarette volume growth in the US in 2022 as FY21 inventory build-up unwinds. We expect revenues from New Categories (vaping, THP and modern oral) to reach ~£5bn by 2025. We assume BAT repurchases £2bn of shares annually over 2022-24e.

BEAR CASE 2,400p

~7x bear case 2023e EPS

Failure of NGP strategy; Increased US regulation. We assume BAT loses US market share and New Categories fail to attract growth. We model ~1.5% top-line and earnings CAGR in 2022-25e. We assume increased US regulation longer term (e.g. nicotine reduction) and reflect that in our terminal growth of -3.5% (vs -1.5% in base case). Our bear case valuation assumes BAT de-rates to historical lows at ~7x CY23 P/E vs 10x in our base case. Assumes a more conservative financial policy (no buybacks).

Risk Reward – British American Tobacco PLC (BATS.L)

KEY EARNINGS INPUTS

Drivers	2021	2022e	2023e	2024e
Sales	25,684	27,651	28,684	29,790
EBIT	11,150	12,186	12,797	13,390
EPS	329.0	363.3	394.8	424.2
ROIC	0.1	0.1	0.1	0.1

CATALYST CALENDAR

Date	Event
27 Jul 2022	Half Year 2022 British American Tobacco PLC Earnings Release

Source: Refinitiv, Morgan Stanley

INVESTMENT DRIVERS

- Success in Next Generation Products
- Volume growth/market share gains
- Constant currency operating profit growth
- Friendly capital return policies
- Cost-saving opportunity

GLOBAL REVENUE EXPOSURE

- 0-10% Japan
- 0-10% MEA
- 0-10% UK
- 10-20% APAC, ex Japan, Mainland China and India
- 10-20% Europe ex UK
- 10-20% Latin America
- 40-50% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

1/5 MOST | 3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

SUSTAINABILITY & ESG

		+1.0 / -1.0
Indicator of Change	0.38	
Disclosure Rate	88%	

RISKS TO PT/RATING

RISKS TO UPSIDE

- Accelerated share gains across the NGP portfolio
- Greater visibility on regulatory risk
- More aggressive share buybacks vs. current expectations
- Improving cigarette fundamentals and stable global excise tax policy

RISKS TO DOWNSIDE

- Accelerated time line for regulatory action in cigarettes
- Reduced consumer take-up in NGPs vs expectations
- Share loss to discounters across NGP portfolio
- Conservative capital allocation

OWNERSHIP POSITIONING

Inst. Owners, % Active	71.9%
HF Sector Long/Short Ratio	1.5x
HF Sector Net Exposure	3.2%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2022e

	Low	Morgan Stanley Estimates	Mean	High
Sales / Revenue (£, mn)	26,200	27,651	27,054	28,028
EBIT (£, mn)	10,987	12,186	11,830	12,250
EPS (p)	346.9	363.3	359.4	368 0
ROE (%)	10.3	12.3	11.8	12.9

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

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(as of June 30, 2022)

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	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OT ER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
STOCK RATING CATEGORY	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	**1383**	**39%**	**320**	**42%**	**23%**	**595**	**39%**
Equal-weight/Hold	**1561**	**44%**	**353**	**46%**	**23%**	**715**	**47%**
Not-Rated/Hold	**0**	**0%**	**0**	**0%**	**0%**	**0**	**0%**
Underweight/Sell	**574**	**16%**	**87**	**11%**	**15%**	**215**	**14%**
TOTAL	**3,518**		**760**			**1525**	

Data nc ude common stock and ADRs current y ass gned rat ngs. Investment Bank ng C ents are compan es from whom Morgan Stan ey rece ved nvestment bank ng compensat on n the ast 12 months. Due to round ng off of dec ma s, the percentages provded n the "% of tota " co umn may not add up to exact y 100 percent.

Analyst Stock Ratings

Overwe ght (O). The stock's tota return s expected to exceed the average tota return of the ana yst's ndustry (or ndustry team's) coverage un verse, on a r sk-adjusted bas s, over the next 12-18 months.
Equa -we ght (E). The stock's tota return s expected to be n ne w th the average tota return of the ana yst's ndustry (or ndustry team's) coverage un verse, on a r sk-adjusted bas s, over the next 12-18 months.
Not-Rated (NR). Current y the ana yst does not have adequate conv ct on about the stock's tota return re at ve to the average tota return of the ana yst's ndustry (or ndustry team's) coverage un verse, on a r sk-adjusted bas s, over the next 12-18 months.
Underwe ght (U). The stock's tota return s expected to be be ow the average tota return of the ana yst's ndustry (or ndustry team's) coverage un verse, on a r sk-adjusted bas s, over the next 12-18 months.
Un ess otherw se spec f ed, the t me frame for pr ce targets nc uded n Morgan Stan ey Research s 12 to 18 months.

Analyst Industry Views

Attract ve (A): The ana yst expects the performance of h s or her ndustry coverage un verse over the next 12-18 months to be attract ve vs. the re evant broad market benchmark, as nd cated be ow.
In-L ne (I): The ana yst expects the performance of h s or her ndustry coverage un verse over the next 12-18 months to be n ne w th the re evant broad market benchmark, as nd cated be ow.
Caut ous (C): The ana yst v ews the performance of h s or her ndustry coverage un verse over the next 12-18 months w th caut on vs. the re evant broad market benchmark, as nd cated be ow.
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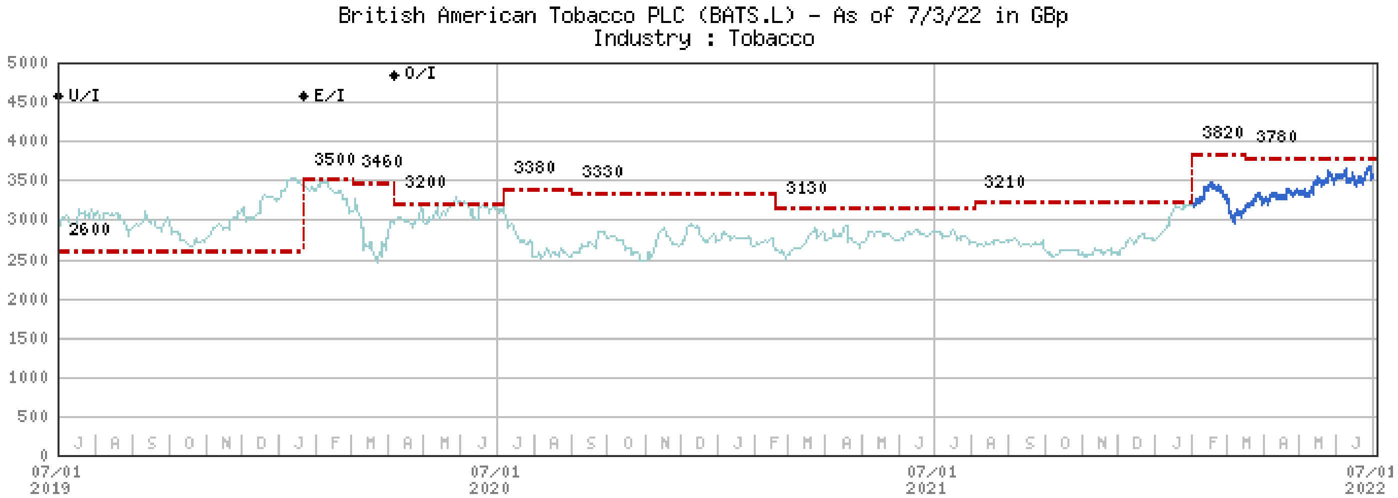
Stock Price, Price Target and Rating History (See Rating Definitions)

Morgan Stanley | RESEARCH IDEA



Stock Rating History: 7/1/17 : O/A; 5/11/18 : NA/A; 8/6/18 : NA/NR; 9/17/18 : E/NR; 9/18/18 : E/I; 6/16/19 : U/I; 1/22/20 : E/I; 4/7/20 : O/I

Price Target History: 6/23/17 : 6000; 2/22/18 : 5500; 5/11/18 : NA; 9/18/18 : 3920; 11/16/18 : 2750; 6/16/19 : 2600; 1/22/20 : 3500; 3/2/20 : 3460; 4/7/20 : 3200; 7/6/20 : 3380; 9/1/20 : 3330; 2/18/21 : 3130; 8/3/21 : 3210; 2/1/22 : 3820; 3/17/22 : 3780

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
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INDUSTRY COVERAGE: Tobacco

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/04/2022)
Rashad Kawan		
Br t sh Amer can Tobacco PLC (BATS L)	O (04/07/2020)	3 561p
mper al Brands PLC (MB L)	E (02/01/2022)	1 840p
Swed sh Match AB (SWMA ST)	E (02/01/2022)	SKr 104 55

Stock Rat ngs are subject to change. P ease see atest research for each company.
* stor ca pr ces are not sp t adjusted.

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Comp eted: 06 Ju 22, 06:57 GMT
Re eased: 06 Ju 22, 06:57 GMT

British American Tobacco Plc / Altria Group Inc.

FDA temporarily suspends JUUL MDO

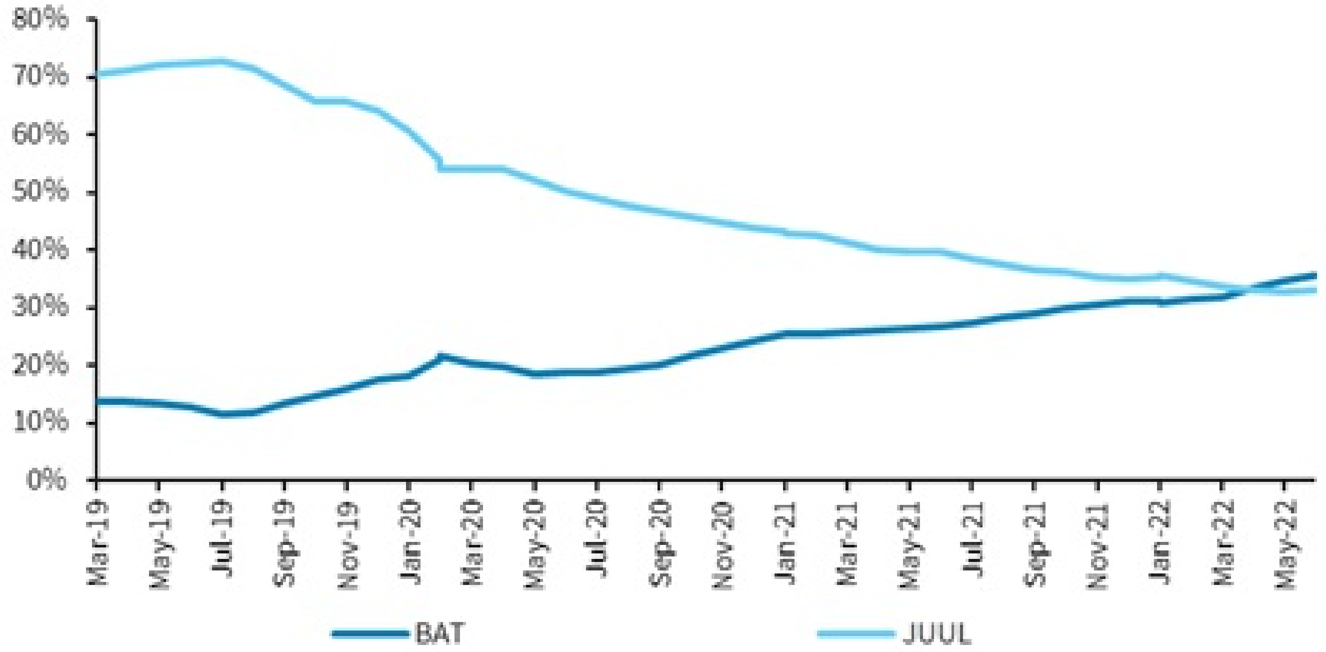
Stock Rating/Industry View: Overwe ght/Neutra
Price Target: GBp 4,400
Price (05-Jul-2022): GBp 3,426
Potential Upside/Downside: 28%
Tickers: BATS LN / BATS.L

Stock Rating/Industry View: Underwe ght/Neutra
Price Target: USD 36.00
Price (05-Jul-2022): USD 41.72
Potential Upside/Downside: -14%
Tickers: MO

Yesterday, the FDA tweeted that "The agency has determ ned that there are sc ent f c ssues un que to the JUUL app cat on that warrant add t ona rev ew" and t s temporar y suspend ng the market ng den a order (MDO) ssued to JUUL ast month. "Th s adm n strat ve stay temporar y suspends the market ng den a order dur ng the add t ona rev ew but does not resc nd t," FDA Tobacco sa d, .e., JUUL w cont nue to be so d n the US market n the meanwh e.

BATS s ga n ng share n the US e-c gs market wh e JUUL s os ng share. Due to the PMTA rev ew process, we be eve JUUL w not be ab e to market aggress ve y wh e BATS w cont nue to further so d fy ts pos t on n the US e-c gs market. Accord ng to our per-pack ana ys s and BAT's d sc osures, we est mate that BAT ost c$1.20/pod EBIT n US e-c gs n FY21, or a most -$350mn, wh ch w ke y sw ng to $0.40 n EBIT/pack n FY22, or c$160mn. W th ncreas ng pr ces, reduced trade marg ns and sca e benef ts n US e-c gs, we est mate BATS cou d grow US e-c gs EBIT to c$600mn n FY25 (see BATS: JUUL s oss cou d be Vuse s ga n for deta s).

BATS' Vuse is now the market share leader



Sou ce: N e se da a, Ba c ays Resea c

Analyst(s) Certification(s):

We, Gaurav Ja n and Pa av M tta , hereby cert fy (1) that the v ews expressed n th s research report accurate y ref ect our persona v ews about any or a of the subject secur t es or ssuers referred to n th s research report and (2) no part of our compensat on was, s or w be d rect y or nd rect y re ated to the spec f c recommendat ons or v ews expressed n th s research report.

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Mentioned Stocks (Ticker, Date, Price)

Altria Group Inc. (MO, 05-Ju -2022, USD 41.72), Underwe ght/Neutra , CD/CE/D/J/K/L/M

Valuation Methodology: We set our pr ce target for A tr a based on a P/E va uat on. Over the ast two decades, A tr a has traded at an average fwd mu t p e of c13x. H gher c garette vo ume dec nes, regu atory uncerta nty and the management s attempt to se US bus ness at c.8x P/core tobacco EPS have pressured the mu t p e over the ast two-three years. W th better c garette vo umes, the operat ng momentum strengthened n 2020; however, we expect US c g vo umes to worsen to -8-9% n 2022 and revert to -4-5% n 2023 and beyond. We va ue A tr a at ~7x FY23E P/E and add an add t ona va ue of ~$1 per share (JUUL & Cronos stake va ue).
Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: (a) If c garette vo umes mprove and e-c gs dec ne or rema n steady, there s potent a that the stock re-rates above our pr ce target. (b) A tr a ramps up on! n cot ne pouches successfu y and mproves ts market share n the modern ora category.

Ratings and Price Target History:
A tr a Group Inc.
Currency=USD

Source: IDC, Barc ays Research

Publication Date	Closing Price*	Rating	Adjusted Price Target
29-Jun-2022	41.76	Underwe ght	36.00
03-May-2022	55.44		53.00
02-Aug-2021	47.73		45.00
08-Ju -2020	39.87	Equa We ght	43.00
08-Oct-2019	42.00		50.00

On 06-Ju -2019, pr or to any ntra-day change that may have been pub shed, the rat ng for th s secur ty was Overwe ght, and the adjusted pr ce target was 64.00.

Source: B oomberg, Barc ays Research

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H stor ca stock pr ces and pr ce targets may have been adjusted for stock sp ts and d v dends.

British American Tobacco Plc (BATS.L, 05-Ju -2022, GBp 3426), Overwe ght/Neutra , A/CD/CE/D/E/J/K/L/M/N

Valuation Methodology: We have cons dered Br t sh Amer can Tobacco s va uat on us ng a 1-year P/E-based approach. We der ve our target mu t p e w th reference to BAT s tobacco peer group, mak ng adjustments for bus ness m x, everage and growth prospects.We a so dock BAT s FY23E EPS by c1-2% due to constant restructur ng charges of c£150mn as we as conso dat on of Canad an subs d ary, wh ch s under the Compan es Cred tor Agreement (CCA) App y ng a ~11x mu t p e resu ts n our rounded pr ce target of 4400p.
Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The regu atory agenda at the FDA w dom nate head nes every few months, ke y creat ng per ods of he ghtened vo at ty. Other r sks nc ude acce erated c g vo ume dec nes due to e-c g growth and exc se tax h kes n var ous countr es.

Ratings and Price Target History:
Br t sh Amer can Tobacco P c
Currency=GBP

Source: IDC, Barc ays Research

Publication Date	Closing Price*	Rating	Adjusted Price Target
07-Jun-2022	35.66		44.00
15-Feb-2022	34.26		42.00
10-Jan-2022	28.69		34.00
18-Mar-2021	27.62		33.00
08-Ju -2020	30.49		38.00
21-Jan-2020	34.13		42.00

On 06-Ju -2019, pr or to any ntra-day change that may have been pub shed, the rat ng for th s secur ty was Overwe ght, and the adjusted pr ce target was 40.00.

Source: B oomberg, Barc ays Research

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Stock Rating
Overweight - The stock s expected to outperform the unwe ghted expected tota return of the ndustry coverage un verse over a 12-month nvestment hor zon.
Equal Weight - The stock s expected to perform n ne w th the unwe ghted expected tota return of the ndustry coverage un verse over a 12-month nvestment hor zon.
Underweight - The stock s expected to underperform the unwe ghted expected tota return of the ndustry coverage un verse over a 12-month nvestment hor zon.
Rating Suspended - The rat ng and target pr ce have been suspended temporar y due to market events that made coverage mpract cab e or to comp y w th app cab e regu at ons and/or f rm po c es n certa n c rcumstances nc ud ng where the Investment Bank of Barc ays Bank PLC s act ng n an adv sory capac ty n a merger or strateg c transact on nvo v ng the company.

Industry View
Positive - ndustry coverage un verse fundamenta s/va uat ons are mprov ng.
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34% have been ass gned an Equa We ght rat ng wh ch, for purposes of mandatory regu atory d sc osures, s c ass f ed as a Ho d rat ng; 42% of compan es w th th s rat ng are nvestment bank ng c ents of the F rm; 68% of the ssuers w th th s rat ng have rece ved f nanc a serv ces from the F rm.
13% have been ass gned an Underwe ght rat ng wh ch, for purposes of mandatory regu atory d sc osures, s c ass f ed as a Se rat ng; 31% of compan es w th th s rat ng are nvestment bank ng c ents of the F rm; 63% of the ssuers w th th s rat ng have rece ved f nanc a serv ces from the F rm.

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A BETTER TOMORROW

2022 Half Year Results

Presentation Script

Wednesday 27 July, 09:00a.m. BST

CORPORATE PARTICIPANTS

Jack Bowles
Chief Executive

Tadeu Marroco
Finance and Transformation Director

BAT
A BETTER TOMORROW

Jack Bowles, Chief Executive

Good morning everyone and welcome to our 2022 interim results presentation.

I am Jack Bowles, Chief Executive of BAT. With me this morning is Tadeu Marroco, Group Finance and Transformation Director.

Before I start the presentation, I take it that you have all seen the disclaimer on slide 2 and 3.

As usual, once Tadeu and I have taken you through the presentation, there will be an opportunity to ask questions.

I would like to take a few moments here to express our deep concern and sadness for everyone affected by the conflict in Ukraine.

While we continue to work towards the transfer of our local Russian business, we remain focused on the 2,500 people we employ in Russia and safeguarding their future employment.

This is an extremely complex undertaking, and we will provide an update on our progress as soon as we are able.

Thank you, turning now to our Interim results.

I am proud to say that, we are both Transforming our business and Delivering robust results, at the same time, we are successfully navigating an increasingly challenging macro environment in 2022, while delivering superior shareholder returns, with our growing dividend and £2 billion buyback

In the first half of this year we have built on the excellent momentum in 2021.

I am proud that we are making strong progress transforming the business from cigarettes, to lower risk alternatives for smokers, while at the same time driving our other ESG priorities.

We have now reached a milestone of over 20m consumers of our non-combustible products.

We grew New Category revenue by 45% in constant currency, and we have delivered more than a 50% reduction in New Category losses, alongside a continued increase in New Category investment to a total of £1.1billion in the first half alone.

This strong performance has again been driven by all three New Categories, with new product launches in all three global drive brands.

This demonstrates the importance of a global multi-category strategy with strong brands, and great products, in the right markets.

We also continue to make good progress towards our ESG ambitions and targets, with 18 certified carbon neutral facilities, including two added in the first half, as we continue our work towards achieving carbon neutral operations by 2030 for Scope 1 and 2.

At the same time, we have delivered robust results in the first half with Group revenue up 3.7%, 90 basis points operating margin improvement, and adjusted EPS up 5.7% at constant rates.

While we recognise there may be challenges ahead, we are successfully navigating the current macro environment, driven by the resilience of our business.

This is underpinned by our pricing power*, with 90% of our full year planned pricing already achieved. We benefit from high gross margins, and, at present, low levels of input cost inflation, in addition, Quantum is delivering efficiencies and savings ahead of schedule.

These results have enabled us to return a total of £3.8billion in cash to shareholders so far this year, through the dividend and our buyback.

Since 2018, we have grown our Non-combustible consumer base by a compound rate of over 30%, reaching 20.4 million in June, with 4.3 million added in the last 12 months alone.

And excluding Russia, we reached 19 million consumers, adding 3.9 million.

We are confident in our 2030 target of 50 million consumers of non-combustible products.

Over the last 3 years we have grown New Category revenue by a CAGR of 31%.

In the first half of this year, we grew revenue by 45% this is on top of the 51% increase we delivered in 2021.

Non-combustibles now represent 14.6% of Group revenue, this is more than 2 percentage points higher than 2021.

We have real momentum in our New Category business and are well on track to deliver on our £5billion revenue target by 2025.

We drove more than a 50% reduction in New Category losses in the first half. This follows the 10% reduction we delivered last year.

Our three global brands, Vuse, glo and Velo, continued to strengthen, which enabled us to increase prices across the portfolio, in both devices and consumables.

Importantly, more than two-thirds of the profit improvement came from our increased scale and efficiencies.

At the half year, we already have a total of 9 profitable countries in New Categories.

While the route to profitability will not be linear, and we will continue to invest in new launches and geographic expansion this puts us in an excellent position to deliver New Category profitability by 2025.

At the same time, we are also continuing to invest in our transformation.

We have doubled our R&D spend since 2017, accelerating our pace of innovation.

In the first half, we opened an additional Global Device Development Centre, in Shenzhen.

Backed by science, we are developing technology and design that address consumer preferences.

Now let me take you through our latest innovations.

With our new glo platform, hyper X2, we have significantly improved all key aspects of our successful model, glo hyper.

X2 was developed with consumers at its heart a smaller, lighter device with induction heating, and a dedicated boost button delivering customisable heating options.

X2 was launched last week in Japan, our largest THP market, together with an upgraded range of consumables, to deliver maximum satisfaction.

We have ambitious roll out plans for glo hyper X2 in the second half.

In vapour, we launched Vuse Go, our new disposable product, in the UK in May.

Taking just 6 months, this is our fastest speed to market launch yet, and a great example of our increased speed and agility.

Vuse Go currently offers 6 flavours at a premium price.

Already available in over ten thousand stores, Vuse Go is fast approaching No.2 in the UK disposables category just 3 months after launch.

We have rapid market roll out plans in Europe for the second half.

In addition, we launched Vuse ePod 2-plus in May in Canada.

ePod 2-plus is our first-to-market Bluetooth connected device, with its own dedicated app, a device lock, to enhance Youth Access Prevention, Find my vape and direct subscription options.

While still early days, consumer feedback and performance to date have been very encouraging, and ePod2-plus is already more than half of all Vuse devices sold in Canada since launch.

With Velo, we have introduced new-to-world recyclable cans further demonstrating our commitment to embedding ESG in our New Category brands.

This complements the roll out of our recent launches of mini pouches and our Max range, which are driving higher trial and conversion, respectively.

Our accelerated innovation pipeline is fuelling our Faster Transformation and at the same time, we are delivering on our financial commitments.

Reported results were impacted by a number of one-off items, that Tadeu will cover in more detail later.

The most significant of these was a near £1billion impact, from the impairment of Russian assets.

Looking at our adjusted numbers we have delivered group revenue up nearly 4%, despite the current pressure on US industry volume, Profit from operations up 4.9%, Operating margin of almost 44%, EPS up 5.7% and strong cash generation

These are robust financial results that benefit from our strong performance in New Categories and the increasing energy in the organisation.

They demonstrate our ability to successfully navigate the current macro environment.

Through Quantum, we have achieved £1.5billion annualised cost savings 6 months early, and our progress continues.

We now expect to achieve in excess of £1.5billion by the year end.

With our pricing power* and no significant change in global elasticities, we are in a good position to successfully manage inflationary pressures and by leveraging our increased agility, we are ensuring continuity of end market supply.

This has driven a 90 basis point increase in our operating margin.

In summary, with our New Category growth momentum, and further reductions in New Category losses, we are transforming BAT at pace.

We have strong second half investment plans for both new product launches and further geographic expansion.

While we understand that there is more to do, these results demonstrate the strong progress that we are making in our transformation.

We are confident in delivering on our Full Year guidance.

I will now hand over to Tadeu.

Tadeu Marroco, Finance and Transformation Director

Thank you Jack.

I am delighted to share more detail, on how our first half performance demonstrates our faster transformation in action.

Our reported results were impacted by a number of one-off items, including:

- Close to a £1billion non-cash impairment of our Russian business, which is now classified as an asset held for sale.

- A provision of £450 million, recognised in respect of the DOJ and OFAC investigations into alleged historical breaches of sanctions.
- And restructuring charges driven by project Quantum. We expect these to reduce next year, following the completion of the current project.

Further detail on performance ex-Russia can be found in the appendix.

To better understand the key drivers of our performance, we will focus on constant currency adjusted results, unless otherwise stated.

In the first half, we delivered revenue growth of nearly 4% driven by:

- New Category growth of 45%
- And continued strong combustibles price / mix of 5%

Combustible volume was down 4.2%, impacted by a combination of

- the sale of our business in Iran in August last year and
- lower year on year industry volume in the US, reflecting macro pressures including high fuel prices and inventory movements.

With continued value share growth and robust pricing, our combustibles business delivered a resilient operational performance.

Profit from operations was up 4.9%, while absorbing a 1.5% headwind from transactional FX.

This drove adjusted EPS up 5.7%, or 8.6% on a current currency basis.

Our free cash flow before dividends of £2.3 billion was well ahead of last year, illustrating our continued focus on cash conversion.

I am particularly pleased, that for the first time, revenue growth in all three New Categories exceeded strong volume growth with the growing equity of our three global brands enabling us to take pricing in all three categories.

All this is supported by a clear ESG focus, and a substantial body of science for each of our New Category brands, which is actively contributing to our group sustainability targets.

Vuse won the Gold award at the Transform Awards Europe 2022 for "Best Use of Sustainable Packaging".

We also have first of a kind clinical studies for glo and Vuse and based on over 135 of our own studies, and 3rd party data the science shows, that for Vuse and glo, harmful components are 90 to 99 percent less than cigarettes with toxicology between 95 to 99 percent less.

These strong innovation and scientific capabilities will be further enhanced by our new state-of-the-art Innovation Hub in Trieste, Italy where construction continues.

As Jack has already covered, we have reduced New Category losses by more than 50% in the first half whilst at the same time investing £1.1billion in the period.

Two-thirds of this profitability improvement was driven by our increasing scale and efficiencies, with one-third driven by pricing.

We continue to focus on the three profitability levers, Revenue Growth Management, COGS reduction and Marketing Spend Effectiveness and we have made strong progress in the first half.

We have further improved Vuse trade margins, building on the 30% reduction already achieved.

We delivered around £120m of productivity savings, driven by automation and increased scale.

Through our Market Spend Effectiveness tools, we have further reduced the cost of consumer acquisition** and retention across all three categories.

Having invested significantly in establishing our New Category business, we are now in the growth period, where we can continue to invest more and deliver improved profitability.

Our New Category algorithm is now starting to contribute meaningfully to our results

- With strong top line growth and increasing scale, our spend effectiveness is improving, reducing our incremental investment requirements.
- The growing strength of our three global brands has allowed us to increase prices on both devices and consumables.
- And, as we expected, all this is driving a marked improvement in New Category profitability.

Turning now to our New Category performance in detail.

In vapour, we continue to extend our value share leadership position, with Vuse achieving 34.7% value share in the Top 5 markets, up 1.2 percentage points, despite the rapid growth in disposables.

Growth in the vapour category has accelerated, driven by both disposables, which have expanded the vapour category and the continued growth of closed systems.

In Europe, our closed system value share, excluding disposables, grew strongly, and is now close to 50% across all three key vapour markets.

Disposables growth in the UK, France and Germany is reflected in our share of the total vapour market in these countries.

We have responded rapidly, with the launch of our new disposable offering, Vuse Go, in the UK with ambitious rollout plans for the second half.

In April, we were delighted to announce that Vuse had reached US vapour value share leadership in tracked channels.

In Canada, Vuse continued to extend leadership reaching 88% year to date value share, with the launch of ePod 2-plus.

More broadly across the other top 5 markets in Europe, we continued to build on the strong momentum from last year, with further value share gains in closed systems.

In the UK, Vuse Go is already fast approaching the number 2 position in the disposables segment, with premium price positioning and we are seeing very little cannibalisation of our existing Vuse portfolio.

Vuse Go is expected to drive margin accretion, once at scale.

Alongside Vuse Go, we are rolling out a take back scheme for devices in the UK.

In addition, we have strong Youth Access Prevention controls in place, including our retailer training and education programmes, embedding our full governance standards.

In THP, volume share in the Top 9 markets was up 1.6 percentage points to reach 19.6% driven by the continued success of glo hyper.

Excluding Russia, our share reached 18.9%, up 1.2 percentage points.

In Europe, which represents around half of global THP industry sales, hyper continues to drive strong momentum with glo revenue growth of nearly 90%.

glo gained year-to-date volume share of total cigarette and THP in all key markets.

In many countries, glo's share of the THP category now exceeds our share of cigarettes at a higher gross margin per stick, driving profit growth.

In Japan, glo's year to date share grew 60 basis points to 7.4%.

Both glo and our combustible business grew volume share with our total nicotine share in Japan reaching 20.7% up 60 basis points.

We are excited to have launched glo hyper X2 in Japan last week and we have rapid roll out plans for the second half

In Modern Oral, we have maintained our international leadership position outside the US, with 69% volume share of this fast growing category.

In the US, Velo volume share was down in a highly competitive environment as we continued our main investment focus on the much larger vapour opportunity.

The US Modern Oral category remains highly competitive, and still represents only around 2% of total nicotine industry value.

We have submitted a PMTA in the US for our superior, international Velo product range this will ensure we are well prepared for future opportunities in the world's largest New Category market.

In the more established markets of Sweden, Norway, Denmark and Switzerland we remain volume share leaders in the Modern Oral category.

In Sweden, our year to date Modern Oral category share was down 1.4 percentage points due to heavy competitor discounting.

However, our share of total oral continued to grow, reflecting the continued strong growth of the modern oral category.

We are also making strong progress with Velo in newer Modern Oral markets.

In the UK, Velo has reached volume share leadership, with close to 50% share and was awarded Product Of The Year.

We continue to see an attractive opportunity for Velo in emerging markets offering an affordable reduced risk alternative to cigarettes.

In South Africa, we launched a city test pilot in Johannesburg at the end of last year.

We have now entered the second phase of the test with guided trial and expansion to selected organised retail chains in Johannesburg. We are seeing encouraging early results.

Turning now to Combustibles.

Cigarette pricing was up nearly 9%, and while consumers are feeling the impact of inflation, we are currently seeing no significant change in global elasticities.

Pricing was partially offset by geographic mix driven mainly by volume growth in Brazil and Pakistan and lower US volume.

Combustible volume declined by 4.2%, mainly due to the sale of our business in Iran and lower industry volume in the US. This resulted in revenue up 0.6%.

With a well-balanced portfolio of brands across all key price tiers and the benefits of our Revenue Growth Management tool we believe we are well placed to navigate the inflationary pressures globally.

Turning now to the regions.

In Europe, New Category revenue was up 50%, driving total regional revenue up nearly 10%.

Europe is a true multi-category region and we are rapidly transforming our business. Non-combustible revenue already accounts for close to 20% of total regional revenue.

Combustible revenue grew 3.5%, as volume impacted by the conflict in Ukraine and a decline in Turkey was more than offset by strong pricing.

Value share was down 30 bps, mainly driven by Russia and Germany.

Profit was up close to 12%, driven by strong revenue growth and further cost saving initiatives as a result of Quantum.

In APME, New Category revenue was up 16%, mainly driven by THP, with total revenue in the region up 4.7%.

Combustible revenue grew over 4% and value share was up 40bps.

Strong performances in Pakistan, Japan and Bangladesh more than offset the impact from the sale of our Iranian business, in August last year.

Profit was down 5%, largely due to the change in excise terms in Australia in 2021, and the disposal of Iran.

Recovery in Duty Free continues at a very slow pace.

In AMSSA, New Category revenue was up over 70% driven by the excellent performance of Vuse in Canada and South Africa. This was a strong contributor to regional revenue growth of 6%.

Combustible revenue was up 4%, as markets, particularly South Africa and key markets in South America, began to normalise post COVID.

Combustible value share was down 40 bps, mainly driven by Canada, Mexico and Brazil.

Profit was up 6.5% driven by revenue growth, and the benefit of continued cost savings from Quantum.

Turning now to the US.

The business is performing well, with strong pricing and continued value share growth in combustibles, as well as an excellent New Category performance.

New Category revenue grew by 59%, driven by Vuse up 60%, and Velo up over 40%.

Significant vapour value share growth for Vuse, up 380bps to 36.3%, drove Vuse to the No.1 vapour brand position in the US.

This was delivered despite the continued growth of synthetic nicotine disposables.

We have grown monthly Combustible volume share sequentially, with a year-to-date increase of 40bps since January.

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Overall year-to-date combustible volume share is still down 20bps versus full year 2021, following a decline in the second half of last year.

Combustible industry volume declined by 10%, reflecting the impact of macro factors including higher fuel prices and a return to more normal consumer consumption patterns post COVID.

Reynolds volume was down 13.4% in the first half.

This reflects the industry decline and the net effect of inventory movements in the period.

These included:

- the unwinding of the prior year stock build
- partially offset by additional inventory in June, ahead of the implementation of our global SAP platform

In the second half, we expect results to benefit from a softer comparator, offset by the reversal of the inventory phasing around our SAP roll out.

This means full year results will reflect the full unwinding of the prior year US inventory movements.

Value share in combustibles was up 30bps, supported by the strength of our premium brands Newport and Natural American Spirit.

Continued strong price/mix of around 10% was more than offset by the volume decline. Combustible revenue was down 3.4%.

Adjusted profit from operations was up 5.5%, driven by a material improvement in New Category profitability continued strong pricing, and efficiency gains from factory and salesforce rationalisations.

As a result, adjusted operating margin in the US was up 290 basis points to 52.6%.

Group operating margin also expanded strongly, and was up by 90bps on an adjusted current rate basis despite further incremental New Category investment.

We also absorbed a 1.5% transactional FX headwind on profit, or a 50 basis point headwind to margin, mainly due to the strength of the US dollar.

With the £281million reduction in New Category losses, New Categories supported margin expansion for the first time.

In addition, through Quantum, we have continued to drive further simplification and efficiency, delivering savings of £274million in the first half.

This brings total annualised Quantum savings to just over £1.5billion, with further productivity savings expected in the second half.

This resulted in Group operating margin reaching 43.9%.

Turning now to EPS, we delivered constant currency adjusted diluted EPS growth of 5.7%.

This reflects our robust operating performance, the benefit of the recovery in ITC post-COVID, and the share buyback.

While over 90% of our debt is at fixed rates, Net Finance costs increased driven by higher interest rates and the weakening of sterling against other major hard currencies.

As a result, we now expect full year net finance costs to be closer to £1.6 billion with an underlying tax rate of around 25%, based on current tax rates.

Finally, we expect a transactional FX headwind of around 2% for the full year and extrapolating current spot rates we expect currency translation to be a tailwind of around 6% on full year adjusted EPS growth.

We delivered strong cash flow conversion of 77%, and £2.3billion of free cash-flow, in the first half.

While cash flow is always weighted towards the second half due to the timing of leaf purchases and MSA payments this is ahead of prior years, driven by our continued focus on working capital across the business.

We continue to expect full year gross capex of £700million, broadly in-line with adjusted depreciation and amortisation.

Based on current FX rates, we continue to expect to deliver full year adjusted net debt to adjusted EBITDA within our 2-3x corridor.

We are well on track to deliver another year of operating cash conversion in excess of 90% and expect to generate £40billion of free cash-flow over the next five years.

Our strong cash generation has enabled us to return £3.8billion to shareholders, including £2.5billion from dividends, and £1.3billion through our share-buyback.

Overall, I am very pleased with our performance in the first half. While there may be further challenges ahead, we remain vigilant.

We are successfully navigating the current macro environment and irrespective of the timing of the transfer of our Russian business I am confident that we are on track to deliver our guidance of 2-4% revenue growth and Mid-Single Figure EPS growth.

Thank you, and with that I will hand back to Jack for his closing remarks.

Jack Bowles, Chief Executive

Thank you Tadeu.

So, in summary, we are making strong progress.

We are delivering on the operational priorities we set three years ago and we are continuing to deliver robust financial results, driven by:

- continued strong growth and improving profitability in New Categories,
- the resilience of our combustible business,
- continued savings driven by Quantum
- and strong cash generation.

At the same time we are successfully transforming our business at pace with great momentum in New Categories.

Our Faster Transformation is well underway, driven by our multi-category strategy.

We are delivering on our Purpose.

We are building A Better Tomorrow by transforming BAT to a

- High growth,
- Multi-category,
- Consumer led, CPG
- With a reduced impact on public health and ESG at its core.

I am confident this will create value for all our stakeholders.

Thank you for listening.

I will now open it up to questions.

[Q&A session transcript to follow]

Closing comment:

Jack Bowles

Thank you for joining us today.

These results show that we are Transforming the business and delivering robust results.

I am confident in our full year guidance.

With great New Category momentum, we are on track for our 2025 targets.

Our Faster Transformation is well underway, led by New Category growth and our pathway to profitability.

BAT is changing rapidly, powered by our ethos. I am excited about the future for BAT.

Thanks for listening.

* References to pricing power reflect our balanced portfolio across price tiers and low global elasticities for our combustible products. The terms are not intended to reflect any of the Group's future pricing intentions.

** Target market for consumer acquisition is existing adult smokers/nicotine users.

-END-

NGP progress showcased at Capital Markets Day

We were proud to showcase our commitment to and progress in Next Generation Products (NGP) at a Capital Markets Day for investors and analysts on 25 October.

25 October 2017

The event was held at The Bike Shed in Shoreditch, an area of London that in recent years has evolved into a hub for creative industries and the people who work in them.

The day included a NGP exhibition showing how our NGP portfolio – which includes Vapour and Tobacco Heating Products – is evolving to meet the needs of adult consumers seeking alternatives to traditional cigarettes.

We also shared our objectives for the growth of our NGP business. These are to generate NGP revenue of over £500 million* this year, and for this to double in 2018 to over £1 billion, rising to more than £5 billion in 2022. We expect the NGP business to be breaking-even by the end of 2018 and to deliver substantial profit by 2022.

The day's line-up also included presentations and Q&A sessions on Reynolds American Inc., regulation, marketing and the performance of our international business.

Commenting on the Capital Markets Day, Nicandro Durante, Chief Executive, said: "We are very pleased to be sharing more details on the opportunities for BAT in NGP and combustibles, and to introduce our new US subsidiary just three months after the completion of the Reynolds acquisition.

"We are proud to share our exciting future product pipeline across both the Tobacco Heating and Vapour categories and to provide shareholders with an opportunity to experience the products first-hand. Our NGP business has real momentum and our confidence is reflected in the financial objectives we have set out."

You can read more about the Capital Markets Day in a press release issued on 25 October.

*Pro forma number reflecting 12 months of Reynolds in 2017.

Disclaimers

This announcement does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any British American Tobacco p.l.c. ("BAT") shares or other securities. This announcement contains certain forward-looking statements, made within the meaning of Section 21E of the United States Securities Exchange Act of 1934, regarding our intentions, beliefs or current expectations concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the economic and business circumstances occurring from time to time in the countries and markets in which the Group operates.

These statements are often, but not always, made through the use of words or phrases such as “believe,” “anticipate,” “could,” “may,” “would,” “should,” “intend,” “plan,” “potential,” “predict,” “will,” “expect,” “estimate,” “project,” “positioned,” “strategy,” “outlook” and similar expressions.

It is believed that the expectations reflected in this announcement are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated.

Among the key factors that could cause actual results to differ materially from those projected in the forward-looking statements are uncertainties related to the following: the failure to realize contemplated synergies and other benefits from mergers and acquisitions, including the recent merger of Reynolds American Inc. ("Reynolds") and BAT; the effect of mergers, acquisitions and divestitures, including the merger of Reynolds and BAT, on BAT's operating results and businesses generally; the ability to maintain credit ratings; changes in the tobacco industry and stock market trading conditions; changes or differences in domestic or international economic or political conditions; changes in domestic or international tax laws and rates; the impact of adverse domestic or international legislation and regulation; the ability to develop, produce or market new alternative products and to do so profitably; the ability to effectively implement strategic initiatives and actions taken to increase sales growth and the market position of BAT's brands; the ability to attract, convert and retain new or existing consumers; the ability to enhance cash generation and pay dividends; adverse litigation and dispute outcomes and the effect of such outcomes on BAT's financial condition; adverse decisions by regulatory bodies and changes in the market position, businesses, financial condition, results of operations or prospects of BAT.

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser. The forward-looking statements reflect knowledge and information available at the date of preparation of this announcement and the Company undertakes no obligation to update or revise these forward-looking statements. Nothing in this document should be construed as a profit forecast. Readers are cautioned not to place undue reliance on such forward-looking statements.

Additional information concerning these and other factors can be found in BAT's and Reynolds's filings with the U.S. Securities and Exchange Commission ("SEC"), including Reynolds's most recent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and BAT's registration statement on Form F-4, which was declared effective by the SEC on June 14, 2017, and Current Reports on Form 6-K, which may be obtained free of charge at the SEC's website, http://www.sec.gov, and BAT's Annual Reports, which may be obtained free of charge from BAT's website www.bat.com.

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Simplifying our New Category brands

28 November 2019

BAT has today announced that we are creating three global brands for our New Category product portfolio as we further accelerate the growth of our New Category business:

- VUSE for vapour products
- VELO for modern oral products
- GLO for tobacco heating products

In the video above, our Chief Marketing Officer, Kingsley Wheaton, explains that, as BAT focuses on becoming a stronger, simpler, faster organisation, now is the right time to make this move.

He says: "We want to lead the industry across all our New Category products and believe the time is now right to simplify our brand portfolio, creating three strong, recognisable and trusted global brands."

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The full results from the one-year clinical study of our tobacco heating product, #glo build upon the favourable ch... twitter.com/i/web/status/1...
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Our products

Our portfolio

Reduced-risk products*†

– Tobacco heating products

– Vapour products

– Modern oral products

– Understanding the comparative risks of our products

Marketing our products responsibly

Youth access prevention

Manufacturing

Working with retailers

Tobacco

Our global partnership with McLaren

Vapour products

Leading the growth of a new category

We launched our first vapour product in 2013 and today we are one of the world's leading vapour companies.

Under our flagship global Vuse brand, our vapour products play a major role in providing smokers with a reduced risk*† alternative to cigarettes. We will continue to invest and innovate to deliver even greater choice and satisfaction for our consumers.

Vapour products do not contain tobacco and do not involve combustion. As a result, the vapour contains fewer and lower levels* of the toxicants found in the smoke produced when tobacco is burned.

BAT's Vuse ePen 3 and Vuse ePod vapour products contain around 99%** less toxicants than traditional cigarette smoke. As the longest established category of alternative products, there is a growing body of evidence to support

Consistent marketing principles and youth access prevention activities

→ Marketing our products responsibly

Regulation for reduced-risk products*† a critical pathway to reducing combustible tobacco-related harm

→ BAT's view on regulation of reduced-risk products*†

External links

the role of vapour products as reduced-risk** compared to traditional cigarettes. Our scientific vapour data has been published in more than 80 peer-reviewed manuscripts and adds to the wealth of evidence supporting the category's role in Tobacco Harm Reduction.

00:00

What is a vapour product?

The scientific evidence

There is growing consensus among many in the public health community and academia about the role of vapour products as a reduced-risk*† alternative to smoking. This is supported by a wealth of global reviews, studies and reports. In the UK, for example, the Office for Health Improvement & Disparities (formerly known as Public Health England) has previously issued a series of expert reviews of the latest evidence, concluding: "based on current knowledge, vaping is at least 95% less harmful than smoking"[1]. According to the UK's Office for National Statistics, 6.3% of the adult population vape, and smoking levels have dropped to 14.1%, from 23% of the adult population in 2012. This figure represents a significant reduction in the proportion of smokers from 2018, when 14.7% of the adult population smoked, and continues the

→ bat-science.com

→ Reynolds American Inc.

Harm Reduction Report

→ **Download our 2018 Harm Reduction Focus Report**

trend in falling smoking prevalence since 2011. It also means the UK has one of the lowest smoking incidences in Europe[2].

In 2021, we published a comprehensive review of the scientific evidence for vaping products, their potential health effects, and their role in tobacco harm reduction[3]. This is a summary of more than 300 peer-reviewed scientific papers and other evidence published by around 50 institutions over the past decade. The review showed that the number of people who incorrectly believe vaping is as harmful or more harmful than smoking conventional cigarettes has risen in the UK, Europe, and the US over the past decade. This is despite a number of scientific reviews published in the same period showing that vaping products present less risk to health than cigarettes[*†] , so long as they are manufactured in accordance with quality standards. According to adult population modelling studies cited in the review, a significant reduction in premature deaths could be achieved if current smokers switched exclusively to vaping rather than continuing to smoke cigarettes.

Number one global vaping brand

In July 2021, Vuse achieved global vapour value share leadership with a value share of 32.1%. Revenue was up 56% to £952 million at constant currency. With vapour being the largest New Category product by revenue and number of consumers in the nicotine sector, achieving global leadership in vaping marks an important milestone in our transformation. This demonstrates continued strong momentum across our global New Category business. Vuse also became the world's first global carbon neutral vape brand in 2021.

Designed with purpose

The more popular vapour products have become, the more consumer-centric and design-led the new products need to be. Our commitment to fundamental science and precision engineering helps ensure our vaping products are designed to prevent the common problems seen in many other products – such as dry-wicking, caused by a lack of e-liquid reaching the heater, leading to overheating and an unpleasant aftertaste. In an effort to make vaping more acceptable to cigarette smokers, our scientists are constantly experimenting to try to replicate the smoking experience, but without the high levels of toxicants created by combustion. Our application of nicotine salts in Vuse vPro liquids and our continued research into optimisation of those formulations is part of a continued R&D effort to make vaping more acceptable to smokers[4]. Flavour is also a key driver of vapour product satisfaction. We have pioneered the use of biomimetic technology in our e-liquids to replicate aroma profiles, such as of cured tobacco leaf or naturally sourced mint, with the aim of offering our consumers an unrivalled portfolio of authentic, differentiated flavours.

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* Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

† Our products as sold in the US, including Vuse, Velo, Grizzly, Kodiak, and Camel Snus, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.

**These products are not risk free. This is a comparison between smoke from a 1R6F reference cigarette (approx. 9mg tar) and vapour from the Vuse ePod and ePen 3 in terms of the average of the 9 harmful components the World Health Organization recommends to reduce in cigarette smoke.

1 McNeill A, Brose LS, Calder R, Bauld L, Robson D. (2018). Evidence review of e-cigarettes and heated tobacco products. A report commissioned by PHE. London: PHE. https://www.gov.uk/government/publications/e-cigarettes-and-heated-tobacco-products-evidence-review/evidence-review-of-e-cigarettes-and-heated-tobacco-products-2018-executive-summary.

2 Office for National Statistics (2020). Adult smoking habits in the UK: 2019. Cigarette smoking habits among adults in the UK, including the proportion of people who smoke, demographic breakdowns, changes over time and use of e-cigarettes.

3Camacho, Oscar M., Ebajemito, James K., Coburn, Steven, Prasad, Krishna, Costigan, Sandra and Murphy, James J. (2021). Evidence From the Scientific Assessment of Electronic Cigarettes and Their Role in Tobacco Harm Reduction. Contributions to Tobacco & Nicotine Research, vol.30, no.2, 2021, pp.63-108. https://doi.org/10.2478/cttr-2021-0007

4 Ebajemito JK, McEwan M, Gale N, et al. (2020). A randomised controlled single-centre open-label pharmacokinetic study to examine various

approaches of nicotine delivery using electronic cigarettes. Sci Rep 2020; 10: 19980. https://doi.org/10.1038/s41598-020-76610-4

Home → Our products → Reduced-risk products*† → **Vapour products**

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S&P Global
Market Intelligence

British American Tobacco p.l.c. LSE:BATS FH1 2022 Earnings Call Transcripts

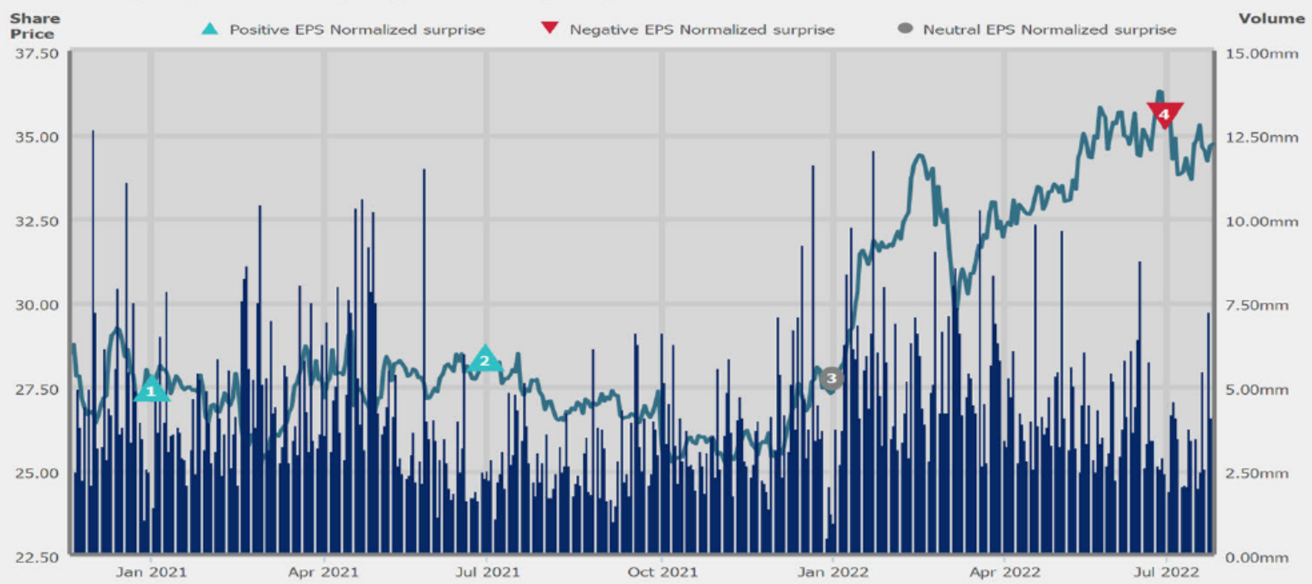
Wednesday, July 27, 2022 8:00 AM GMT

S&P Global Market Intelligence Estimates

	-FH1 2022-	-FH2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.66	2.01	3.64	4.00
Revenue (mm)	12870.69	14662.71	27377.51	28635.19

Currency: GBP
Consensus as of Jul-27-2022 7:05 AM GMT

Stock Price [GBP] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FH2 2020	1.74	1.80	1 3.45 %
FH1 2021	1.53	1.54	2 0.65 %
FH2 2021	1.75	1.75	3 0.00 %
FH1 2022	1.66	1.63	4 (1.81 %)

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Call Participants

EXECUTIVES

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

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Finance & Transformation Director, Member of Management Board and Executive Director

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Presentation

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Good morning, everyone, and welcome to our 2022 interim results presentation. I'm Jack Bowles, Chief Executive of BAT, and with me this morning is Tadeu Marroco, our Group Finance and Transformation Director.

Before I start the presentation, I take it that you have all seen the disclaimers on Slide 2 and Slide 3.

As usual, once Tadeu and I have taken you through the presentation, there will be an opportunity to ask questions.

I would like to take a few moments here to express our deep concerns and sadness for everyone affected by the conflict in Ukraine. While we continue to work towards the transfer of our local Russian business, we remain focused on our 2,500 people we employ in Russia and safeguarding their future employment. This is an extremely complex undertaking and we'll provide an update on our progress as soon as we're able. Thank you.

Turning now to our interim results. I'm proud to say that we are both transforming our business and delivering robust results. At the same time, we are successfully navigating an increasingly challenging macro environment in 2022, while delivering superior shareholder returns with our growing dividend and GBP 2 billion buyback.

In the first half of this year, we have built on an excellent momentum in 2021. I am proud that we are making strong progress transforming the business from cigarettes to lower-risk alternatives for smokers, while at the same time driving our other ESG priorities. We have now reached a milestone of over 20 million consumers of our noncombustible products. We grew New Category revenues by 25% in constant currency, and we have delivered more than a 50% reduction in new category losses, alongside a continued increase in new categories investment to a total of GBP 1.1 billion in the first half alone.

This strong performance has again been driven by all 3 new categories with new product launches in all 3 global drive brands. This demonstrates the importance of a global multi-category strategy with strong brands and great products in the right markets. We also continue to make good progress towards our ESG ambitions and targets with 18 certified carbon-neutral facilities, including 2 added in the first half. And we continue our work towards achieving carbon-neutral operations by 2030 for Scope 1 and 2.

At the same time, we have delivered robust results in the first half with group revenue up by 3.7%, 90 basis points operating margin improvement and adjusted EPS up 5.7% at constant rate.

While we recognize there may be challenges ahead, we are successfully navigating the current macro environment driven by the resilience of our business. This is underpinned by our pricing power with 90% of our full-year plan pricing already achieved. We benefit from high gross margins, and at present, low levels of input cost inflation.

In addition, Quantum is delivering efficiencies and savings ahead of schedule. These results have enabled us to return a total of GBP 3.8 billion in cash to shareholders so far this year through the dividend and our buyback.

Since 2018, we have grown our noncombustible consumer base by a compound rate of over 30%, reaching 20.4 million in June, with 4.3 million added in the last 12 months alone. And excluding Russia, we reached 19 million consumers, adding GBP 3.9 million.

We are confident in our 2030 targets of 50 million consumers of noncombustible products.

Over the last 3 years, we have grown new category revenues by a CAGR of 31%. And in the first half of this year, we grew revenue by 45%. This is on top of the 51% increase we delivered in 2021.

Noncombustible now represents 14.6% of group revenue. This is more than 2 percentage points higher than in 2021. We have real momentum in our new category business and are well on track to deliver on our GBP 5 billion target revenue for 2025. We drove more than 50% reduction in new category losses in the first half. This follows the 10% reduction we delivered last year. Our 3 global brands, Vuse, glo and Velo continue to strengthen, which enables us to increase prices across the portfolio in both devices and consumables.

Importantly, more than 2/3 of the profit improvement came from our increased scale and efficiencies. At the first half year, we already have a total of 9 profitable countries in new categories. While the route to profitability will not be linear, and we'll continue to invest in new launches and geographic expansion, this puts us in an excellent position to deliver new category profitabilities by 2025.

At the same time, we're also continuing to invest in our transformation. We have doubled our R&D spend since 2017, accelerating our pace of innovation. In the first half, we opened an additional global device development center in Shenzhen. Backed by science, we are developing technology and design to address consumer preferences.

Now let me take you through our latest innovations. With our new glo platform, hyper X2, we have significantly improved all key aspects of our successful model, glo Hyper. X2 was developed with consumers at its heart, a smaller, lighter device with induction heating and a dedicated boost button delivering customizable heating options. X2 was launched last week in Japan, our largest THP market, together with an upgraded range of consumables to deliver maximum satisfaction.

We have ambitious rollout plans for glo hyper X2 in the second half.

In Vapour, we launched Vuse Go, our new disposable product in the U.K. in May. Taking just 6 months, this is our fastest speed to market launch yet and a great example of our increased speed and agility.

Vuse Go currently offers 6 flavors at a premium price. Already available in over 10,000 stores, Vuse Go is fast approaching #2 in the U.K. disposable category, just 3 months after launch.

We have a rapid market rollout plan in Europe for the second half.

In addition, we launched Vuse ePod 2+ in May in Canada. ePod 2+ is our first-to-market Bluetooth connected device with its own dedicated app, a device lock to enhance youth access prevention, find my vape and direct subscription options.

While still early days, consumers' feedback and performance to date has been very encouraging, and ePod 2+ is already more than half of all volume devices sold in Canada since launch.

With Velo, we have introduced new-to-the-world recyclable cans further demonstrating our commitment to embedding ESG in our new category brands. This complements the rollout of our recent launches of mini pouches and our MAX range, which are driving higher trial and conversion, respectively. Our accelerated innovation pipeline is fueling our faster transformation. And at the same time, we are delivering on our financial commitments.

Reported results were impacted by a number of one-off items that Tadeu will cover in more detail later. The more significant of this was a near GBP 1 billion impact from an impairment of Russian assets.

Now looking at our adjusted numbers. We have delivered group revenue up nearly 4% despite the current pressure on U.S. industry volumes. Profit from operation up by 4.9%; operating margin of almost 44%; EPS up 5.7%; and strong cash generation. These are robust financial results that benefit from our strong performance in new category and the increased energy in the organization. They demonstrate our ability to successfully navigate the current macro environment.

Through Quantum, we have achieved GBP 1.5 billion annualized cost savings 6 months earlier, and our progress continues. We now expect to achieve in excess of GBP 1.5 billion by the year-end.

With our pricing power and no significant change in global elasticity, we're in a good position to successfully manage inflationary pressure. And by leveraging our increased agility, we're ensuring continuity of end-market supplies. This has driven a 90 basis points increase in our operating margin.

In summary, with our new category growth momentum and further reduction in new category losses, we are transforming BAT at pace. We have strong second half investment plans for both new product launches and further geographic expansion.

While we understand that there is more to do, these results demonstrate the strong progress that we are making in our transformation. We are confident in delivering on our full year guidance.

I will now hand over to Tadeu.

Tadeu Luiz Marroco
Finance & Transformation Director, Member of Management Board and Executive Director

Thank you, Jack. I'm delighted to share more detail on how our first half performance demonstrates our faster transformation in action. Our reported results were impacted by a number of one-off items, including close to GBP 1 billion noncash impairment of our Russian business, which is now classified as an asset held for sale; a provision of GBP 450 million recognized in respect of the DOJ and OFAC investigations into legit historical breach of sanctions; and restructuring charge driven by project Quantum. We expect these to reduce next year following the completion of the current project. Further detail on performance ex-Russia can be found in the appendix.

To better understand the key drivers of our performance, we will focus on constant currency adjusted results unless otherwise stated. In the first half, we delivered revenue growth of nearly 4%, driven by new category growth of 45% and continued strong combustible price mix of 5%. Combustible volume was down 4.2%, impacted by a combination of the sale of our business in Iran in August last year and lower year-on-year industry volume in the U.S. reflecting macro pressures, including high fuel prices and inventory movements. With continued value share growth and robust pricing, our combustible business delivered a resilient operational performance. Profit from operations was at 4.9%, while absorbing a 1.5% headwind from transactional FX. This drove adjusted EPS up 5.7% or 8.6 percentage on a current currency basis.

Our free cash flow before dividends of GBP 2.3 billion was well ahead of last year, illustrating our continued focus on cash conversion. I'm particularly pleased that for the first time, revenue growth in all 3 categories exceeded strong volume growth with the growing equity of our 3 global drive brands enabling us to take pricing in all 3 categories. All this is supported by a clear ESG focus and the substantial body of science for each of our new category brands, which is actively contributing to our group sustainability targets.

Vuse won the gold award at the Transformation Awards Europe 2022 for best use of sustainable packaging. We also have first-of-a-kind clinical studies for glo and Vuse, and based it on over 135 of our own studies and third-party data, the science shows that for Vuse and glo, harmful components are 90% to 99% less than cigarettes with toxicology between 95 to 99 percentage less.

This strong innovation and scientific capability will be further enhanced by our new state-of-the-art innovation hub in Trieste, Italy, where construction continues.

As Jack has already covered, we have reduced new category losses by more than 50% in the first half, whilst at the same time, investing GBP 1.1 billion in the period. 2/3 of this profitability improvement was driven by our increase in scale and efficiencies with 1/3 driven by pricing. We continue to focus on the 3 profitability levers, revenue growth management, COGS reduction and marketing spend effectiveness, and we have made strong progress in the first half.

We have further improved Vuse trade margins, building on the 30% reduction already achieved. We delivered around GBP 120 million of productivity savings, driven by automation and increased scale. Through our Marketing Spend Effectiveness tools, we have further reduced the cost of consumer acquisition and retention across all 3 categories. Having invested significantly in establishing our New Category business, we are now in the growth period where we can continue to invest more and deliver improved profitability. Our new category algorithm is now starting to contribute meaningfully to our results. With strong top line growth and increasing scale, our spend effectiveness is improving, reducing our incremental investment requirements.

The growing strength of our 3 global brands has allowed us to increase pricing on both device and consumables. And as we expected, all of this has driven a marked improvement in new category profitability.

Turning now to our New Category performance in detail. In Vapour, we continue to extend our value share leadership position with views achieving 34.7% value share in the top 5 markets, up 1.2 percentage points despite the rapid growth in disposables. Growth in the vapour category has accelerated, driven by both disposables, which have expanded the vapour category and the continued growth of closed systems. In Europe, our closed system value share, excluding disposables, grew strongly and is now close to 50% across all 3 key vapour markets. Disposables growth in the U.K., France and Germany is reflected in our share of the total vapour market in these countries. We have responded rapidly with the launch of our new disposable offering, Vuse Go, in the U.K. with ambitious rollouts planned for the second half.

In April, we were delighted to announce that Vuse had reached U.S. vapour value share leadership in tracked channels. In Canada, Vuse continue to extend leadership reaching 88% year-to-date value share with the launch of ePod 2+.

More broadly, across the other top 5 markets in Europe, we continue to build on the strong momentum from last year with further value share gains in closed systems. In the U.K., Vuse Go is already fast approaching in the #2 position in the disposable segment with premium price positioning. And we are seeing very little cannibalization of our existing Vuse portfolio.

Vuse Go is expected to drive margin accretion once at scale.

Alongside Vuse Go, we are rolling out a take-back scheme for devices in the U.K.

In addition, we have strong youth access prevention controls in place, including our retailer training and education programs embedding our full governance standards.

In THP, volume share in the top 9 markets was up 1.6 percentage points to reach 19.6 percentage, driven by the continued success of glo Hyper.

Excluding Russia, our share reached 18.9 percentage, up 1.2 percentage points.

In Europe, which represents around half of global THP industry sales, Hyper continues should drive strong momentum with glo revenue growth of nearly 90%.

glo gained the year-to-date volume share of total cigarette and THP in all key markets. In many countries, glo's share of the THP category now exceeds our share of cigarettes at a higher gross margin per stick driving profit growth.

In Japan, glo's year-to-date share grew 60 basis points to 7.4%. Both glo and our combustible business grew volume share with our total nicotine share in Japan reaching 20.7%, up 60 basis points.

We are excited to have launched glo Hyper X2 in Japan last week, and we have rapid rollout plans for the second half.

In Modern Oral, we have maintained our international leadership position outside the U.S. with 69% volume share of this fast-growing category.

In the U.S., Velo volume share was down in a highly competitive environment as we continued our main investment focus on the much larger vapour opportunity.

The U.S. Modern Oral category remains highly competitive, and it still represents only around 2% of total nicotine industry value.

We have submitted a PMTA in the U.S. for our superior international Velo product range. This will ensure we are well prepared for future opportunities in the world's largest New Category market. In the more established markets of Sweden, Norway, Denmark and Switzerland, we remain volume share leaders in the Modern Oral category.

In Sweden, our year-to-date Modern Oral category share was down 1.4 percentage points due to heavy competitor discounting. However, our share of total oral continue to grow reflecting the continued strong growth of the Modern Oral category.

We are also making strong progress with Velo in newer Modern Oral markets. In the U.K., Velo has reached volume share leadership with close to 50% share and was awarded Product of the Year. We continue to see an attractive opportunity for Velo in emerging markets offering an affordable reduced risk alternative to cigarettes.

In South Africa, we launched the city test pilot in Johannesburg at the end of last year. We have now entered the second phase of the test with guided trial and expansion to selected organized retail chains in Johannesburg. We are seeing encouraging early results.

Turning now to combustibles. Cigarette pricing was up nearly 90%. And while consumers are feeling the impact of inflation, we are currently seeing no significant change in global elasticities. Pricing was partially offset by geographic mix, driven mainly by volume growth in Brazil and Pakistan and lower U.S. volume. Combustible volume declined by 4.2%, mainly due to the sale of our business in Iran and lower industry volume in the U.S. And this resulted in revenue up 0.6%.

With a well-balanced portfolio of brands across all key price tiers and the benefits of our revenue growth management tool, we believe we are well placed to navigate the inflationary pressures globally.

Turning now to the regions. In Europe, New Category revenue was up 50%, driving total regional revenue up nearly 10%. Europe is a true multi-category region, and we are rapidly transforming our business. Noncombustible revenue already accounts for close to 20% of the total regional revenue.

Combustible revenue grew 3.5% as volume impacted by the conflict in Ukraine and the decline in Turkey was more than offset by strong pricing. Value share was down 30 basis points, mainly driven by Russia and Germany. Profit was up close to 12%, driven by strong revenue growth and further cost-saving initiatives as a result of Quantum.

In APME, New Category revenue was up 16%, mainly driven by THP with total revenue in the region up 4.7%. Combustible revenue grew over 4% and value share was up 40 basis points. Strong performance in Pakistan, Japan and Bangladesh more than offset the impact from the sale of our Iranian business in August last year.

Profit was down 5%, largely due to the change in excise terms in Australia in 2021 and the disposal of Iran. Recovery in duty-free continues at a very low -- slow pace.

In AMSSA, New Category revenue was up over 70%, driven by the excellent performance of Vuse in Canada and South Africa. This was a strong contributor to regional revenue growth of 6%.

Combustible revenue was up 4% as markets, particularly South African key markets in South America began to normalize post-COVID. Combustible value share was down 40 basis points, mainly driven by Canada, Mexico and Brazil. Profit was up 6.5% driven by revenue growth and the benefit of continued cost savings from Quantum.

Turning now to the U.S. The business is performing well with strong pricing and continued value share growth in combustibles as well as an excellent new category performance. New category revenue grew by 59%, driven by Vuse, up 60%; and Velo, up over 40%. Significant Vapour value share growth for Vuse, up 380 basis points to 36.3% drove Vuse to the #1 vapour brand position in the U.S. This was delivered despite the continued growth of synthetic nicotine disposables.

We have grown monthly combustible volume share sequentially with a year-to-date increase of 40 basis points since January.

Overall, year-to-date combustible volume share is still down 20 basis points versus full year 2021, following a decline in the second half of last year. Combustible industry volume declined by 10%, reflecting the impact of macro factors, including higher fuel prices and a return to more normal consumer consumption patterns post COVID.

Reynolds volume was down 13.4% in the first half. This reflects the industry decline and the net effect of inventory movements in the period. This includes the unwinding of the prior year stock build partially offset by additional inventory in June ahead of our implementation of our global SAP platform. In the second half, we expect results to benefit from a softer comparator, offset by the reversal of the industry -- in the inventory phasing around our SAP rollout.

This means full year results will reflect the full unwinding of the prior year U.S. inventory movements.

Value share in combustible was up 30 basis points, supported by the strength of our premium brands Newport and Natural American Spirit. Continued strong price/mix of around 10% was more than offset by the volume decline. Combustible revenue was down 3.4%. Adjusted profit from operations was up 5.5%, driven by a material improvement in new category profitability, continued strong pricing and efficiency gains from factory and sales force rationalization.

As a result, adjusted operating margin in the U.S. was up 290 basis points to 52.6%. Group operating margin also expanded strongly and was up by 90 basis points on an adjusted current rate basis despite further incremental new category investment.

We also observed a 1.5% transactional FX headwind on profit or a 50 basis point headwind to margin, mainly due to the strength of the U.S. dollar. With the GBP 281 million reduction in the new category losses, new categories supported margin expansion for the first time.

In addition, through Quantum, we have continued to drive further simplification efficiency, delivering savings of GBP 274 million in the first half. This brings total annualized quantum savings to just over GBP 1.5 billion, with further productivity savings expected in the second half. This resulted in group operating margin reaching 43.9%.

Turning now to EPS. We delivered constant currency adjusted diluted EPS growth of 5.7%. This reflects our robust operating performance, the benefit of the recovery in ITC post COVID and the share buyback.

While over 90% of our debt is at fixed rates, net finance costs increased, driven by higher interest rates and the weakening of sterling against other major hard currencies.

As a result, we now expect full year net finance costs to be closer to GBP 1.6 billion with an underlying tax rate of around 25% based on current tax rates. Finally, we expect a transactional FX headwind of around 2% for the full year. And extrapolating current export rates, we expect currency translation to be a tailwind of around 6% on full year adjusted EPS growth.

We delivered strong cash flow conversion of 77% and GBP 2.3 billion of free cash flow in the first half. While cash flow is always weighted towards the second half due to the timing of leaf purchases and MSA payments, this is ahead of our prior year driven by our continued focus on working capital across the business. We continue to expect full year gross CapEx of GBP 700 million, broadly in line with adjusted depreciation and amortization.

Based on current FX rates, we continue to expect to deliver full year adjusted net debt to adjusted EBITDA within our 2 to 3x corridor.

We are well on track to deliver another year of operating cash conversion in excess of 90% and expect to generate GBP 40 billion of free cash flow over the next 5 years. Our strong cash generation has enabled us to return GBP 3.8 billion to shareholders, including GBP 2.5 billion from dividends and GBP 1.3 billion through our share buyback.

Overall, I'm very pleased with our performance in the first half. And while there may be further challenges ahead, we remain vigilant. We are successfully navigating the current macro environment. And irrespective of the timing of the transfer of our Russian business, I am confident that we are on track to deliver our guidance of 2% to 4% revenue growth and mid-single figure EPS growth.

Thank you. And with that, I will hand back to Jack for his closing remarks.

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Thank you, Tadeu. So in summary, we are making strong progress. We are delivering on the operational priorities we set 3 years ago, and we are continuing to deliver robust financial results driven by continued strong growth and improving profitability in the new categories, the resilience of our combustible business, continued savings driven by Quantum and strong cash generation.

At the same time, we are successfully transforming our business at pace with great momentum in new categories. Our faster transformation is well underway driven by a multi-category strategy. We are delivering on our purpose. We are building a better tomorrow by transforming BAT to a high-growth multi-category consumer-led CPG with a reduced impact on public health and ESG at its core. I am confident this will create value for all our stakeholders.
Thank you for listening, and I will now open up to questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Richard Felton from Goldman Sachs.

Richard Felton
Goldman Sachs Group, Inc., Research Division

I think -- see U.S. volume down 13.4%. So obviously, you've highlighted the impact of inventory phasing. Are you able to quantify what the net impact of those various inventory phasing movements were for H1? Then if we think about the 10% industry volume declines, you're lapping a tough comp base, gas prices are rising, that's obviously weighed on your performance this year. But as you think about industry volumes for combustibles in the U.S. over the next few years, are there any reasons why you don't think it should return to the 3% to 4% volume declines that we're used to seeing historically? That's my first question, and I've got a follow-up on new categories after.

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Okay. So I'll take the second part, Tadeu will take the first part. I mean, the industry volume in the U.S., as I always said in the previous calls, you always have to consider a 3-year average in order to see what's happening in the U.S. Of course, there has been some stock movements at the end of last year due to potential taxation and a lot of things that happened in the end of last year. But if you look at the overall trend in terms of the U.S. market on a 3-year basis, you see that, of course, there is the post-COVID impact where the market was much stronger in the -- especially in the 2 years that has passed. And now we are seeing a softer market in the first half of the year. You see a bit of recovery in the July results. But I think that what you have to consider is, one, we have a very strong portfolio. Two, we are growing premium share. Three, our brands are extremely robust in all price points, and we don't see down trading currently in our portfolio or acceleration of down-trading in the industry. So we have to go step by step. We have generated a profit increase of 5% in the U.S. The new category, especially e-cigarettes, is taking more consumers and that's good because we're making money in e-cigarettes.

So I think that the comparator is softer in the second half of the year, but we have to be prudent. We have to consider the numbers as they come. And as we know, we have a very strong position in the U.S. market. We'll continue to grow on that, both on combustible. Value share is growing by 30 bps, which is an extremely good number. And at the same time, we are very strong in terms of new categories in the U.S. Tadeu?

Tadeu Luiz Marroco
Finance & Transformation Director, Member of Management Board and Executive Director

Yes. In terms of the numbers of brands compared with the market, you have to remember that last year, we delivered a number ahead of the market, and we made the point about the stocks that were built at the back of some uncertainties in terms of tax increase, the price increase that happened at the end of the -- at the beginning of the year and so on and so forth.

So we said that there will be some unwind happening this year. This partially happened in the first half of the year. And I would say that between the 13% to 10% of the market, you would consider that half of that was the -- some of the unwinds that happened already in H1. The other half is the fact that we have declined our market share by 20 basis points, like we mentioned although we have already increased month-on-month January, 40 basis points, and so we have been recovering that. But if you take the average of -- compared with the full year 2021, we have a market share down. So I think that half you could attribute to the difference.

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

So we have, if you want, a 30 bps increase in terms of value share, and there is strong pricing also since the beginning of the year from across the industry. I think that we're in a very good position to continue to perform very well in the U.S. As I said, I mean, we're growing profit by 5%.

Richard Felton
Goldman Sachs Group, Inc., Research Division

Great. My second question is on your New Category business, and thank you for giving us a bit more disclosure on the contribution. It looks like you're making quick progress towards our breakeven target, but my question is on gross margins for vapour. Now if I cast my mind back to your CMD at the start of 2020, you said that you were making about 40% gross margin on vapour, which at that stage is quite a long way below THP or your Modern Oral business. Now since then, you've made good progress on trade margins, you're talking about COGS efficiency, you're taking pricing. Is it possible to give us an update on where those gross margins for vapour are today? Is it in line with your other new category businesses yet?

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Yes, yes. I mean, first before Tadeu will give you more details, I think what is important is 3 years ago, people thought that we would not be able to get a strong position in terms of new categories. We have demonstrated that multi-category, new categories was the way to go. And we are demonstrating last year with a growth of 50% in -- 51% in revenue and 45% in the first half of the year with a total number now of consumers of 20 million with a growth of more than 2 million in the first half of the year, which is even better than last year, that we are absolutely capable of driving our growth and that we have very strong brands.

And at the same time, we've reduced the losses by 50% in the first half of the year, GBP 281 million. So I think that this demonstrates that not only we are very effective in terms of our COGS, we are very effective in terms of our consumer acquisition costs, and we are very well able now to take pricing across the board in the 3 categories, making sure that we deliver profitability at pace and that we meet all our targets for 2025.

Tadeu Luiz Marroco
Finance & Transformation Director, Member of Management Board and Executive Director

Richard, we are really pleased with the progress in the new categories as a whole. In terms of our holistic view on that, well, for the first time, like we highlighted in the presentation, we have been seeing revenue ahead of volume growth in all of the 3 categories. We have a 45% revenue growth at the back of 51% when we closed the 2021. So the growth continued at a very accelerated pace. In terms of gross margin overall, the increase in this half compared with the full year is on the likes of 7%. So we have grown gross margin of the 3 categories ahead of the revenue growth as well, which is very pleased.

So we -- in terms of vapour, we have been doing a strong progress at the back of revenue growth management. We are taking price. We are reducing discounts on device. We are working hard on the COGS, the automation that we highlighted in the presentation, the trade margins that we quoted. So we -- if you -- the 40% that you are quoting, you strip out the discounts on device on the consumable side. Today, we are more on the 50%. So we have progress against this 40%. And overall, we have been progressing in all 3 categories, and we are now with a business that has already passed these levels of investment creating the foundations. And we are now in terms of operating leverage and trying to get to a level of scale that will allow us to keep on track on those margin improvements, not just in vapour but across the categories.

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

And you saw also -- if I may add, you saw also that not only we're taking pricing across the 3 categories. But on top of that, we have a pipeline of innovation for the second half that is extremely strong. And we'll put in place all these new launches in the months to come. And I think that, that pipeline is extremely strong. Consumer based, different categories, different objectives and innovation across the board with the speed in terms of development of innovation that has increased dramatically.

And as Tadeu referred in his presentation, we have doubled the investment in the last few years in terms of R&D, and we're really motoring through our development and getting very, very strong position. So the balancing act between the financials and the consumer acquisition is working very well and we'll continue to accelerate in the second half of the year.

Operator

The next question comes from the line of Gaurav Jain from Barclays.

Gaurav Jain
Barclays Bank PLC, Research Division

So 3 questions from me. So see, if I look at in other companies which are thought of as NGP leaders in the industry, their EPS growth has been at low to mid-teens over the last 2, 3 years. And if I look at your delivery today, NGPs are now 10% of overall revenue and then you are also reducing losses. You have -- Slide 38 clearly points out the margin improvement, which is happening. Why wouldn't your EPS growth -- once share repurchases are layered in, why wouldn't your EPS growth accelerate to low to mid-teens at some point of time in the next 3 years?

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Well, first of all, thank you for recognizing our strong performance in terms of new categories. And I must say that our financials are very robust in terms of the profitability of the business moving forward. And we have scaled up in the last 3 years. And I think that -- I mean, we have a certain number of kickers, but yet at the end of the day, it will take a little bit more time. But the reality is we have a very, very strong business, and we continue to move forward.

Tadeu Luiz Marroco
Finance & Transformation Director, Member of Management Board and Executive Director

Yes. Gaurav, look, we spoke about the capital allocation framework that's back in the year-end result in '21, beginning of the year. And we want to consider on any given year what are the circumstances that we see ourselves. We have clearly recognized the value of share buyback. And this is something we have done in the past. We have now restarted the program. But we also want to create some reserves, so to do some M&A bolt-ons that will be important, mainly on the beyond equity space that you know that we have this ambition to go in that space as well to accelerate the transformation of the company. We also want to keep the dividend growth in sterling base and to pay down debt so we can keep within the 3 to 2x corridor.

So we will have to consider all those effects on any given year, and we have to see how this translates because today the reality is that the kickers of the group not as high as it used to be in the past because Reynolds now is part of the subsidiary. So it's part of the operating profit of the group. And so it's difficult to start to speculate for the future in terms of impact. But we have a very sound business. This transformation that we are now calling faster transformation, this chapter that we are going through our journey of the transformation. It means that the new category will be more relevant to the group results, you're absolutely right. You're going to see and we said that, exactly that, that we will see our group revenue more impacted by the progress we make in new categories. Our bottom line more impacted by the progress we make in new categories. So this is not new news. This is something that we have already said before. And we will continue going ahead, and we see what's happened on the kicker side, considering the capital allocation decisions that we might have to do in the future.

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

So we have a very high level of cash conversion. And also, I mean, we're doing a GBP 2 billion share buyback as we speak, and we're at GBP 1.3 billion in the first half of the year. Step by step.

Gaurav Jain
Barclays Bank PLC, Research Division

Sure. Now my second question is on the dynamics in the U.S. e-cigarette market. So you have given this number on Slide 25, the disposables industry value share of 22%. So is this all synthetic nicotine? And what percentage of this will be flavored? And if we have this clamp down from the FDA on the synthetic nicotine market, could a big chunk of this move to you over the next 6 months to 12 months?

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Well, I mean the good thing -- I mean, there are different elements in there. One is, yes, they are all synthetic nicotine because you cannot do flavors without synthetic nicotine. That was the past.

Now the FDA says that synthetic nicotine is in the remits of the FDA. So now they are starting to put in place all their activities in terms of control and implementation. The trade in the U.S. is extremely dynamic and we'll also start to take some positions related to that.

So I think that what is important to consider is that there is more people that are coming to vaping, which is great. That we have a very strong brand with Vuse in the U.S., that we're leaders in more than 34 states in the U.S. that everybody thought that we would not be successful with Vuse in the U.S., and we are the leaders now. We are the leaders and the market continues to grow. There was the EVALI crisis. Of course, the market has recovered. Now it's growing by 3%, 4% since the beginning of the year. And we are continuing to take positions in there. So I would say that the disposable is something that is addressed by the FDA and that brings more people to the category, which is in turn without flavors will benefit to the category where we are leader, and we're continuing to increase our leadership. And we're taking a lot of pricing. And by the way, competition has started to follow us on pricing, which is a very good news also. So it's all an acceleration in terms of the potential of new categories in the U.S. Remember that in the U.S., new categories already represents more than 21% of the market, yes. So it is already a market that is extremely strong in terms of new categories.

Gaurav Jain
Barclays Bank PLC, Research Division

And my last question is, again, on the U.S. market and given the strength of Vuse. So look, your cigarette price mixers, plus 11%. You have lost some share. Now if Vuse continues to execute so well, do you really need to take as higher pricing and lose volume share? Or would you rather take less pricing and gain volume share on cigarettes as well and you let Vuse's growth and the EBIT swing from Vuse drive your overall U.S. EBIT growth?

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Yes. First of all, thank you very much for recognizing that we have a very strong position on our combustible business. And as I always said, the 3 priorities for the company is value in combustibles, step change in new categories and simplifying the business. On the value of the combustibles, I mean we are growing in the U.S. 30 bps in terms of value share and we are losing a little bit of share. I'm not concerned with that. We look always at the right balancing act in between the 2. Where I'm very pleased is that our premium share is growing, and we have very strong brands at the upper end of the portfolio. And we have now also, with Lucky Strike at the bottom, a very strong brand that is more than 2% of the market now. So I have a good visibility.

But what we said always is that we have a pricing strategy and pricing tools in the U.S. that allows us to go extremely granular.

So when we look at e-cigarettes and when we have the leadership, I'm always going to do the call between the pricing and the competitive situation. I think that the demonstration that we have made in the last 12 months even is that you can continue to grow your position in the U.S. in terms of e-cigarette and increase your profitability through pricing, consumer acquisition, automation, reduce our COGS also. And the competition is following our pricing.

So I think that we're in a very good situation where you have to always adapt and analyze the market. But I think that the trends are extremely positive for us.

Operator

The next question comes from the line of Rey Wium from SBG Securities.

Rey L. Wium
SBG Securities (Proprietary) Limited, Research Division

I basically have 3 questions. I just want to know in terms -- I mean, I just want to address this improvement in the next-generation product margin. So if we look at it, the losses have been reduced by 55%. So in terms of -- if we can talk about a glide slope, I think you still said aim to be profitable by -- in aggregate by the 2024, 2025. So to me, it looks like if this trend continues, it may be a bit earlier. And maybe just in that, is there a risk of -- that you need to spend more as a result of the growth in the vapour disposables? So that's my first question. The second one, I just...

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Sorry, let's start with the first question because then you know I'm French and 3 questions is always difficult for me. So let's go step by step. So your first question is related to?

Rey L. Wium
SBG Securities (Proprietary) Limited, Research Division

I just want to know sort of the glide slope.

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Yes, yes. Okay, so on -- yes. Thank you. On that one, you have always to consider that this is a very dynamic environment. These categories were not existing even a few years ago. So we have a very good performance related to our different categories. We are taking pricing. But at the same time, we are improving our COGS, we are automating and we're doing much better in terms of consumer acquisition. At the same time, the innovation pipeline costs money, and we're going to spend the money as we go in order to continue to expand our position.

Two years ago, we were nowhere to be seen in THP that is 50% of the market in -- of the total market of THP worldwide is in Europe. We are nowhere. Now we have 18% in average in terms of share. So I will continue to invest the money. But as the base is much stronger, the cost of acquisition of consumer is better. But competition will not sleep. They will continue to do price discounting. They will continue to do launches. And I think that we're very well positioned. That gives me a bit more space to be able to operate and the target is 2025. So we'll take it as we go.

First is about consumer acquisition and the efficiency and the reduction of cost of consumer acquisition and getting more traction in terms of our positions in the 3 categories and have innovations to launch in the 3 categories. But altogether, you saw last year, we reduced our losses by GBP 100 million. And this year, in the first half of the year, we are accelerating quite nicely. This gives me the muscle, the space and the blood in order to be able to grow fast in terms of new categories.

45% growth in the first half of the year, on the back of 51% for the full year last year on revenue growth. I think that that's stellar. And 2.4 million consumers in the first half of the year additional. So we're even breaking results and records of last year.

Rey L. Wium
SBG Securities (Proprietary) Limited, Research Division

Excellent. Then just on to the combustible. So I'm just curious, it looks to me you have a bit of share pressure in markets such as Australia, Brazil, Mexico. How do you plan to address that?

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Yes. I think that when you look at our position in terms of combustible, first of all, it's a very robust position. What you have on top of that is a portfolio that is extremely strong. And what you see is that the elasticities are playing in our favor. So of course, you will lose a little bit of share here and there and increase your value share. Australia is a specific example whereby taxation was changed in the last year. That has created a bit of vacuum related to the Australia industry as such and there were some scale issues in terms of pricing. We fought back, we recovered market share and we're in a very strong position in Australia now. So I think that we have a very, very strong position in Australia, and we are the leaders there.

In terms of Brazil, our share is still stellar. We are more than 73% share in Brazil. And we have benefited from the COVID environment where the market was closed and the reduction of illicit, that's very normal. Now you are a bit on the back of the post pandemic. So there is a bit of rebalancing, but nothing to be concerned of. The reality is we have a very, very strong business in Australia -- in Brazil. And we have rebalanced our portfolio with Global Drive Brands launches, and we have rearticulated our route to market in terms of sales force, and we have a lot of efficiencies that are coming through in that market.

Rey L. Wium
SBG Securities (Proprietary) Limited, Research Division

And I just want to know -- just want to clarify regarding the treatment of Russia and Belarus. You're treating it as a discontinued operation. So I just want to clarify that for modeling purposes, we need to remove Russia and Belarus from the -- well, the whole of 2021 and the first half of 2022, correct?

Tadeu Luiz Marroco
Finance & Transformation Director, Member of Management Board and Executive Director

No, this is not being treated as discontinued operations. We still have control of the operation in Russia. We are in the process of transferring the business. So it means that we are trying to execute options to find a new buyer, local buyer there and that can take over the business and carry on. And so what's happening is as we have the intention or right to transfer the vision that was already communicated based on IFRS 5, we had to put assets on held on sale, and as a consequence, we have to revalue the business, which we are now attributing a new value for that, given the circumstance, the difficult -- because, as you know, it's a very complex environment.

So the impairment that you see is basically us reassessing the value of those assets that are now for sale, but there is no discontinued operation because we still keep control of the business until we transfer fully their business.

Rey L. Wium
SBG Securities (Proprietary) Limited, Research Division

Okay. So just to clarify, you will keep the Russian operations in the FY '21 numbers and until it's being sold in 2022?

Tadeu Luiz Marroco
Finance & Transformation Director, Member of Management Board and Executive Director

Yes, until it's been sold in '22, once we sell the business and then we start providing a kind of organic view where we strip them from the base as well. But until we do that, it's part of the numbers.

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

It's a very big situation and a very complex situation.

Tadeu Luiz Marroco
Finance & Transformation Director, Member of Management Board and Executive Director

By the way, if you see the appendix, in the appendix of the presentation, you will see a kind of picture of how it looks like on the group numbers if you have done that, if we have transferred the business, hence, there will be no rush anymore in the base of '21 and '22. You can see the underlying numbers on the appendix.

Rey L. Wium
SBG Securities (Proprietary) Limited, Research Division

Yes. That's actually what triggered my question, whether we need to strip Russia out retrospectively.

Tadeu Luiz Marroco
Finance & Transformation Director, Member of Management Board and Executive Director

It's just a reference for you.

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

But as you see in that table, I mean the trends are absolutely similar and this was to give more clarity to everybody in terms of understanding with and without.

Operator

The final question comes from the line of Jon Leinster from Societe Generale.

Jonathan Stephen Leinster
Societe Generale Cross Asset Research

Yes, I've got 2 or 3 questions as well, please.

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Everybody has 3 questions this morning, so go slowly one by one.

Jonathan Stephen Leinster
Societe Generale Cross Asset Research

Analysts only do things in 3s. Going back to a sort of previous question, the vape price mix, plus 25% in the period, a very strong number. Is that driven -- clearly, there's been some price increases, but are we seeing a general decline in the level of device and the product discounting from everybody, including yourselves and competitors? Or is that driven a lot by the change in trade margins?

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

It's a bit of both. I think that when you have products that are more effective, efficient and recognized by the consumer, your cost of acquisition reduces because then your brand is part of the repertoire of the consumers. And then suddenly, you are in a much better situation. Also, there is more pricing, which is good. And we're continuing to grow on all our different positions. Tadeu, you want to add?

Tadeu Luiz Marroco
Finance & Transformation Director, Member of Management Board and Executive Director

Yes. Look, the U.S. in vapour is a major weight for our numbers. And of course, it's a massive market. And in the U.S., we are doing exactly what we said we were going to do. And we are in the phase now of scale. So we don't need all the discount that we used to have in the past on the device. So there is much less discount on device than we used to. And we are also taking pricing because we now we have put in place all these revenue growth digital tools that we have for cigarette also in the new categories in vapour. So we can be very granular in terms of where we increase the price based on the competitive landscape. And we are, as we speak, at 125 index to the second player in the market. So we are taking clearly pricing in the U.S. and reducing discounts, and this all helps in the revenue that you are seeing.

When you go outside the U.S., the strength of our leadership position is allowing us to have a much more strong competitive power in terms of negotiations with key accounts. And this allow us to move, for example, from front margins to back margins that translates into moving away from a specific percentage of revenue as a margin to pay for performance, and this is all reflecting lower trade margins, and that's exactly what is happening at this point in time. It's a combination.

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Yes, lower consumer acquisition cost, better margins and more efficiency in terms of COGS, plus more pricing and strong brands. I mean, that's the very good equation we are in at the moment, and we'll continue to move forward.

Jonathan Stephen Leinster
Societe Generale Cross Asset Research

And just out of interest, what sort of level of trade margins are you moving to? And how would that compare to other fields, particularly cigarettes?

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Of course, the trade margins are much higher than on cigarettes. But what we see is that there is a conversion in time that will happen and that will take some time. But we'll see improvements on a regular basis related to that. And you have to remember that also the other element that is very important is you pay much more taxes on cigarettes than you pay on other categories, which is normal because these are reduced risk products. So that works also in the equation in terms of the financial delivery.

I think what's very important is we said 3 years ago that it's multi-category approach, that there are different consumer moments, different geographies and you need different portfolios. It was more complex for us at the beginning to establish 3 categories. But at the end of the day, when you look at it today, last year, we grew 51%. This year, half year, we grew 45%. We're having now 20 million consumers, which is extremely comparable to other companies out there. And we are planning through and we're able to take pricing in the 3 categories and do efficiency in COGS, consumer acquisitions and taking pricing. So I think that we have a well-balanced portfolio that is responding to the consumers, and we can play in full all the tools that we have in combustible pricing to understand exactly how it works and start to reduce discounting, and that's extremely, extremely powerful for us moving forward because we want to do a lot of additional innovation in the next period. And we showed you during the presentation that we have a lot of innovations that are coming through in the second half of the year.

That cost more, yes. But nonetheless, we have a reduction of 50% of our losses in new categories. So that's going really in the right acceleration where we have the momentum and we're accelerating on that momentum. Pivotal year last year, accelerating on the momentum in 2022, 2023.

Jonathan Stephen Leinster
Societe Generale Cross Asset Research

Just to follow up on that. Just do you expect in the second half that the decline in losses in NGP will be anywhere near the level of the first half given that you -- I think there's a considerable number of launches in the second half.

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Well, take it step by step. We're not going to give guidance on that for the second half of the year. Where we give guidance, we'll deliver our financial algorithm and the corridors that we spoke about. And we will make sure that we are actively supporting these new launches in the balanced way in terms of the balancing act with investment and financials.

Jonathan Stephen Leinster
Societe Generale Cross Asset Research

Okay. And lastly, you clearly made a GBP 450 million charge for the U.S. investigation. Presumably, that will be a cash cost at some point?

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

We're not -- absolutely not in a position to be able to speak about that matter as it stands for very obvious reasons. We decided that it was prudent to take a provision and we'll take it from there.

Tadeu Luiz Marroco
Finance & Transformation Director, Member of Management Board and Executive Director

Yes. It is a no at this point in time, but the fact is that our corridor of 3 to 2 is kept independent of the impact that this might have.

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

A prudent accounting approach.

Operator

There are no further questions. So I will hand the call back to your host for some closing remarks.

Jack Marie Henry David Bowles
CEO, Member of Management Board & Director

Well, thank you very much for taking the time with us today. I must say that what is extremely important is that these results show that we are transforming the business and delivering robust results. I'm extremely confident in our full year guidance. With the great new category momentum that we have, we are on track for our 2025 targets. And our transformation is well on the way. It's led by the new category growth and our pathway to profitability and also a very strong combustible business. We are migrating the consumers from combustibles to new categories. Last year, we had 1 billion packs that were carrying advertising promotions or information for smokers to move to new categories. This year, it's going to be 2 billion. And I want to continue to migrate the consumers from one category to the other.

The profitability, the margins and the cost of acquisition of new consumers with the new categories that we have. And we're the only ones to be in 3 categories and established in there, demonstrates that BAT is changing rapidly and it's powered by our people, our ethos and the determination that we have to make a very clear commitment to delivering for all our stakeholders, all our stakeholders. We take ESG extremely seriously. We take our business extremely seriously. We are growing at pace, and we'll continue to do that.

So in a nutshell, I'm extremely excited about the future of BAT and that 2022 first half comes on the back of a very strong 2021, where we grew in all the different categories, including combustible, and we'll continue to do so. So it's about value in combustible. It's about step change in new categories. It's about simplifying the business. So we are growing value share in the first one.

As we said, we did in 2021, we'll do in 2022, step change in new category, 51% growth last year, 45% on a bigger base in 2022 and GBP 1.5 billion that is -- was GBP 1 billion, then went to GBP 1.5 billion, and now we say that we will deliver more than that.

So thank you very much for your patience with us in the last 3 years. I think we're getting into a very strong position, of which I would not even call it foundation, I will call it a springboard to move forward.

So thank you very much for listening.

Operator
Thank you for joining today's call. You may now disconnect your lines.

27 JULY 2022 – INTERIM RESULTS

BRITISH AMERICAN TOBACCO p.l.c.

HALF-YEAR REPORT TO 30 JUNE 2022

A BETTER TOMORROW

NEW CATEGORIES GROWTH DRIVES FASTER TRANSFORMATION

PERFORMANCE HIGHLIGHTS	REPORTED		ADJUSTED		
	Current rates	Vs 2021	Current Rates	Vs 2021 current	Vs 2021 constant
Cigarette and THP value share		+10 bps			
Cigarette and THP volume share		flat			
Consumers of non-combustible products[1]	20.4m	+2.1m			
Revenue (£m)	£12,869m	+5.7%	£12,869m	+5.7%	+3.7%
Revenue from New Categories (£m)	£1,283m	+45.4%	£1,283m	+45.4%	+45.0%
Profit from operations (£m)	£3,678m	-25.0%	£5,645m	+7.8%	+4.9%
New Category contribution (£m)			£(222)m	-56.1%^	-55.4%^
Operating margin (%)	+28.6%	-11.7 ppts	+43.9%	+90 bps	+50 bps
Diluted EPS (pence)	80.8p	-42.9%	167.4p	+8.6%	+5.7%
Net cash generated from operating activities (£m)	£3,221m	+42.9%			
Adjusted cash generation from operations (£m)			£2,137m	+60.2%	+64.2%
Cash conversion (%)	+87.6%	+41.7 ppts	+77.3%	+10.6 ppts	
Borrowings (£m)	£44,875m	-0.3%			
Adjusted Net Debt (£m)			£39,990m	-1.2%	-7.5%

The use of non-GAAP measures, including adjusting items and constant currencies, are further discussed on pages 55 to 60, with reconciliations from the most comparable IFRS measure provided.
Note – 1. Internal estimate. ^Improvement in New Categories contribution as losses reduce by 56.1% (or 55.4% at constant rates of exchange)

Faster Transformation

- New Categories revenue up 45% to £1,283m*
- Non-combustible product consumers increased by 2.1m to 20.4m, with 14.6% of Group revenue delivered by non-combustible products, up 2.2 ppts from FY21
- Vapour revenue up 48%*, Vuse extended global category value share leadership, becoming U.S. No.1
- glo revenue up 44%*, with glo hyper volume share gains in Europe
- Modern Oral revenue up 37%*, driven by Velo, with continued volume share leadership in Europe
- All New Categories grew revenue faster than volume
- New Category contribution losses reduced by over 50% to £222m

HY Results

- Revenue up 3.7%* led by New Category growth
- Combustible revenue up 0.6%* against a strong U.S. comparator, price/mix was up 4.8%
- Cigarette value share up 10 bps
- £1.5bn Quantum savings delivered six months early, expect to deliver in excess of £1.5bn by end of 2022
- Adjusted profit from operations up 4.9%* includes an adverse transactional FX impact of 1.5%
- Adjusted operating margin up 90 bps
- Adjusted diluted EPS up 5.7% to 163.0p*
- Operating cashflow conversion of 77%, reflecting continued excellent cash generation
- Reported results mainly reflect charges in respect of Russia and the DOJ/OFAC investigations

Jack Bowles, Chief Executive:

"I am very proud that our continued New Categories growth momentum is driving Faster Transformation, with revenue growth of 45%* in the first half of 2022, on top of 51%* growth in FY2021. We are delivering both strong operational performance and transforming the business.

I am especially proud that the number of consumers using our non-combustible brands has passed the milestone of 20m in the first half. Our A Better Tomorrow purpose, partnered with our well-established multi-category strategy, continues to drive growth.

Our three strong, global New Category brands underpinned our revenue performance, with non-combustibles now representing 14.6% of revenue. Revenue growth was ahead of volume growth in all three New Categories. We are confident in delivering £5bn New Category revenue, and profitability, by 2025.

Furthermore, New Category contribution improved by over 50% in H1, with losses reduced by £281m* in the period alongside a continued increase in investment in our transformation, with a total of £1.1bn invested in New Categories in the first half.

From an innovation perspective, the second half promises to be exciting. We are launching our new glo system proposition, hyper X2, and a new consumables range in the THP category, where we are enjoying strong growth. In addition, we continue to build on our international leadership position in Vapour, expanding our portfolio with the launch of Vuse Go, our new disposable Vapour platform. This will be scaled-up and rolled out into a number of new markets following our successful UK pilot launch in the first half of 2022.

Our combustibles business continues to grow value share enabled by robust pricing. In addition, we have delivered £1.5bn Quantum savings six months early, and our progress continues. We now expect to achieve in excess of £1.5bn by year end.

We have a strong and resilient portfolio in the U.S., growing value share in both combustibles and vapour. We continue to grow our premium value share in combustibles and to date we see no acceleration of downtrading in our combustibles portfolio.

We are not immune, of course, to the increasing macro-economic pressures, exacerbated by the conflict in Ukraine. However, we are well positioned to navigate the current turbulent environment due to our powerful brands, operational agility and continued strong cash generation.

I am very pleased that, thanks to the hard work and commitment of BAT employees all over the world, we are delivering our operational performance and business transformation at pace in a challenging environment.

With this strong start to the year, I am confident in achieving our full year guidance. While understanding that there is more to do, these results demonstrate the strong progress we are making in our Faster Transformation towards A Better Tomorrow."

* at constant rates of exchange

CHIEF EXECUTIVE'S STATEMENT

FASTER TRANSFORMATION OF OUR BUSINESS

"During the first half of 2022, our Faster Transformation demonstrated the benefits of our multi-category strategy. Our A Better Tomorrow purpose, which drives a reduction in the health impact of our business, is based on our three core beliefs:

- Rigorous science should underpin our portfolio of reduced-risk products**†;
- Product innovation is essential to satisfy evolving global consumer needs; and
- Sustainability is at the centre of our business decisions and heart of our strategy.

We continue to make substantial investments in our science and R&D and have built a substantial body of science to support our New Category products, including pioneering clinical studies of glo and Vuse.

- Based on over 135 of our own studies, and third-party data across emissions, toxicology and the growing body of clinical and population studies, we believe our products are scientifically substantiated as reduced risk**† compared to smoking and that this science supports the role and use of these products in Tobacco Harm Reduction.
- The science shows that, for Vuse and glo harmful components are 90-99% less than cigarettes, with toxicology between 95% to 99% less. For Velo, studies show it contains less harmful components than snus.

Further to our vapour portfolio expansion, in July 2022, we launched our new THP innovation platform – glo hyper X2 – a smaller, lighter, induction heating device with an ergonomic design and separate boost button. This platform will be enabled by a re-designed Neo consumables range. The roll-out has started in Japan, with rapid roll-outs to other markets planned in the second half of 2022.

We continue to take an active approach to reducing our environmental impact, having signed up to the UN-backed Race to Zero campaign. I am pleased to report that we now have 18 certified carbon neutral^ manufacturing and commercial facilities with two added in the first half of 2022.

Driving even Faster Transformation, while navigating the macro environment, will be our priority during the second half of the year. The strength of our New Category portfolio, combined with our focus on science, innovation and sustainability, underpins our confidence in delivering another strong year in 2022."

FINANCE & TRANSFORMATION DIRECTOR'S OUTLOOK STATEMENT

TRANSFORMING AND DELIVERING

"Our first half performance demonstrates our delivery and our Faster Transformation in action. We continue to build on our momentum, supported by our New Categories becoming a greater driver of Group performance.

We continued to invest in our transformation, with over £1 billion invested in New Categories in the first half. In addition, we improved the contribution from New Categories, with losses down for the second consecutive period, reducing by a further £281 million, at constant rates. Our New Category business is already delivering a positive financial contribution in 9 markets.

Progress at our state-of-the-art Innovation Hub in Trieste, Italy also continues. The Hub will host a New Categories manufacturing site, innovation lab and digital centre of excellence.

Strong pricing in combustibles and value share growth, up a further 10 bps, continue to fund our transformation. U.S. combustible volume was down 13.4%, mainly due to industry volume decline which reflected the impact of macro factors, including higher fuel prices and a return to more normal consumer consumption patterns post COVID.

Adjusted operating margin growth of 90 bps was supported by a further c£275 million of Quantum savings in the first half of 2022. We now expect to achieve in excess of £1.5 billion annualised savings by the end of 2022. Reported results were impacted by impairment charges in respect of Russia assets (£957 million, as described on pages 33 and 34), a charge of £450 million related to the investigation in respect of alleged historical breach of sanctions (described on page 20) and other charges recognised related to Quantum (including the exit from Egypt and planned factory closure in Singapore), with reported EPS down 42.9%.

On an adjusted, constant currency basis, EPS was up 5.7% reflecting our continued strong performance, absorbing the impact of a very strong comparator in the U.S., and the sale of our business in Iran in August 2021. While we are not immune to the current macro environment, we are confident in our full year guidance, irrespective of the timing of the transfer of our Russian business.

We expect to generate £40 billion of free cash flow before dividends over the next five years. With our active capital allocation framework, we are committed to delivering enhanced long-term value for shareholders. We have already repurchased 37.7 million shares at a cost of £1.3 billion as part of our £2 billion share repurchase programme for 2022. Liquidity remains strong with average debt maturity close to 10 years, and 90% of our debt is fixed. Our medium-term rating target remains BBB+/Baa1, with a current rating of BBB+ (negative outlook)/Baa2 (stable outlook)***.

In summary, our robust first half results give us confidence in our full year guidance. We are making strong progress towards our Faster Transformation and building a sustainable Enterprise of the Future."

On track for FULL YEAR 2022 guidance:

- Global tobacco industry volume expected to be down c.3.0% partly due to the U.S., Turkey and uncertainty over Russia / Ukraine.
- Constant currency revenue growth of 2-4% and continued strong progress towards £5bn New Category revenue in 2025.
- Mid-single figure constant currency adjusted EPS growth, including continued expectation of c.2% transactional FX headwind.
- Expected translational FX tailwind of c.6% on full year adjusted diluted EPS growth.
- Operating cashflow conversion in excess of 90%. Adjusted net debt/Adjusted EBITDA expected within our 2-3x corridor.
- Commitment to dividend growth in sterling terms and our long-term 65% dividend pay-out ratio.

** Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk-free and are addictive.

****A credit rating is not a recommendation to buy, sell or hold securities, and may be subject to withdrawal or revision at any time. Each rating should be evaluated separately of any other rating.*

† Our vapour product Vuse (including Alto, Solo, Ciro and Vibe), and certain products including Velo, Grizzly, Kodiak, and Camel Snus, which are sold in the U.S., are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.

^ Carbon neutrality relates to Scope 1 & 2 greenhouse gas (GHG) emissions, achieved by a combination of initiatives, including energy efficiency, emissions reduction, renewable energy use, the purchase of renewable energy certificates and offsetting.

GROUP OPERATING REVIEW

TOTAL GROUP VOLUME and REVENUE

For six months ended 30 June	Volume (unit)		Revenue (£m)						
			Reported			At constant rates			
	2022 Unit	Change %	2022 £m	2021 £m	Change %	FX £m	2022 cc £m	2021 £m	Change %
New Categories			**1,283**	883	+45.4%	(3)	**1,280**	883	+45.0%
Vapour (10ml units / pods mn)	**292**	+18.6%	**617**	398	+55.2%	(27)	**590**	398	+48.2%
THP (sticks bn)	**11.0**	+30.4%	**497**	359	+38.6%	20	**517**	359	+44.2%
Modern Oral (pouches mn)	**1,770**	+10.1%	**169**	126	+34.2%	4	**173**	126	+37.0%
Traditional Oral (stick eq bn)	**3.9**	-4.9%	**598**	558	+7.2%	(37)	**561**	558	+0.6%
Total Non-Combustibles			**1,881**	1,441	+30.7%	(40)	**1,841**	1,441	+27.8%
Cigarettes (sticks bn)	**303.4**	-4.0%							
OTP incl RYO/MYO (stick eq bn)	**8.2**	-11.0%							
Total Combustibles	**311.6**	-4.2%	**10,774**	10,527	+2.3%	(188)	**10,586**	10,527	+0.6%
Other			**214**	207	+2.9%	(10)	**204**	207	-1.9%
Total			**12,869**	12,175	+5.7%	(238)	**12,631**	12,175	+3.7%
Cigarettes and THP (sticks bn)	314	-3.1%							

Use of the term "cc" refers to the variance between the 2022 performance, at 2021 exchange rates, against the 2021 performance.

New Category consumables volume was up in all three categories. Combustibles volume was down 4.2% as growth in markets including Pakistan, Brazil, and Bangladesh was more than offset by the sale of the Iranian business in 2021 and lower volume in the U.S., Turkey, Nigeria, Germany and Denmark. Volume was also lower in Ukraine where, due to the conflict, the Group temporarily ceased manufacturing and all sales activity (see page 19). Cigarette and THP volume share was in line with 2021, as growth in APME (driven by Japan and Bangladesh partly offset by Saudi Arabia and Australia) was offset by the U.S. where the Group continued to drive for value growth. Duty paid industry cigarette volume was estimated[1] to be down c2.5% in the first half of 2022.

On a reported basis, revenue was up 5.7% to £12,869 million driven by strong revenue growth in New Categories, up 45%, supported by continued robust pricing in combustibles (with price/mix of 4.8% supporting value share gains of 10 bps). Excluding a foreign exchange tailwind of 2.0%, revenue was up 3.7% on a constant currency basis.

Revenue from non-combustibles now represents 14.6% of Group revenue, up from 12.4% at FY 2021, reflecting the Group's focus on transforming the portfolio of products to New Categories.

1. Internal estimates

PROFIT FROM OPERATIONS, OPERATING MARGIN AND CATEGORY CONTRIBUTION

For six months ended 30 June	Reported PfO (£m) Operating Margin (%)			Adjusted PfO (£m) Adjusted operating margin (%)				
	2022	2021	Change	Adj	FX	2022 cc	2021	Change
Profit from Operations (PfO)	**3,678**	4,907	-25.0%	1,967	(155)	**5,490**	5,235	+4.9%
Operating Margin	**28.6%**	40.3%	-1,170 bps			**43.5%**	43.0%	+50 bps
PfO delivered by:								
New Categories Contribution						**(225)**	(506)	-55.4%
Rest of Group Contribution						**5,715**	5,741	0.6%

Use of the term "cc" refers to the variance between the 2022 adjusted performance, at 2021 exchange rates, against the adjusted 2021 performance.

Profit from operations on a reported basis was down 25.0% at £3,678 million, with reported operating margin down 11.7 ppts to 28.6%. This was driven by impairment charges of £957 million recognised in respect of the Group's decision to transfer its Russian operations (as explained on page 20 and pages 33 and 34), charges related to the Group's restructuring programme Quantum of £310 million (including the exit from Egypt and planned factory closure in Singapore), and a charge of £450 million recognised in respect of the DOJ and OFAC investigations into alleged historical breaches of sanctions (see page 20).

Adjusted profit from operations and adjusted operating margin

Adjusted profit from operations at constant rates was up 4.9%. Strong revenue growth, improved contribution from New Categories as losses reduced by over 50%, and further savings of c.£275 million delivered through Quantum were partly offset by the absorption of a 1.5% transactional foreign exchange headwind. Adjusted operating margin grew 90 bps or 50 bps at constant rates of exchange.

CATEGORY PERFORMANCE REVIEW

A STEP CHANGE IN NEW CATEGORIES

For six months ended 30 June	Volume (unit)		Revenue (£m)						
			Reported			At constant rates			
	2022 Unit	Change %	2022 £m	2021 £m	Change %	FX £m	2022 cc £m	2021 £m	Change %
Revenue									
Vapour (10ml units / pods mn)	**292**	+18.6%	**617**	398	+55.2%	(27)	**590**	398	+48.2%
THP (sticks bn)	**11.0**	+30.4%	**497**	359	+38.6%	20	**517**	359	+44.2%
Modern Oral (pouches mn)	**1,770**	+10.1%	**169**	126	+34.2%	4	**173**	126	+37.0%
Total New Categories revenue			**1,283**	883	+45.4%	(3)	**1,280**	883	+45.0%
New Categories Contribution							**(225)**	(506)	-55.4%

Use of the term "cc" refers to the variance between the 2022 performance, at 2021 exchange rates, against the 2021 performance.

VUSE – VAPOUR: Extending Global Category leadership and launch of disposable "Vuse Go"

- Vuse vapour value share up 120 bps vs FY 2021 to reach 34.7% May YTD in Top 5 (T5*) markets, despite growth in the disposables segment in Europe.
- Launched Vuse Go in the UK, with further roll-outs planned for the second half of 2022.
- Vapour revenue up 55.2% or 48.2% (at constant rates), ahead of volume growth of 18.6%.
- Continued strong consumer acquisition +0.9m to 9.4m^.
- Vuse now value share leader in U.S. increasing 380 bps (May YTD) vs FY 2021 to 36.3%, leading in 34 states.

Vapour continued its strong momentum (driven by Vuse) with volume up 18.6%, and revenue up 55%, or 48% at constant currency, driven by increased pricing in all key markets. We increased our total vapour value share in the T5 markets to 35.7% May YTD (up 80 bps vs FY 2021), being the global leader in terms of value share. We maintained volume share leadership of devices in all T5 markets, an important indicator of sustainable future growth.

In the U.S., Vuse is now the value share leader, at 36.3%, up 380 bps vs FY 2021, leading in 34 states. This has been driven by the continued success of Vuse Alto. Total Vuse consumables volume grew 19.4% (in an industry approximately 3% higher), with revenue up 71%, or 60% on a constant currency basis. This is despite the growth of synthetic nicotine disposables in the U.S.

We continue to innovate across our Vuse portfolio to drive increased satisfaction for consumers. In the first half, we launched Vuse ePod2+ in Canada, our first connected device. Our value share of total vapour in Canada was up 7.8 ppts vs FY 2021 to 88.4% May YTD.

In Europe, Vuse continued to grow both revenue and volume, and our value share of closed system vapour continued to rise, up 820 bps to 64.4% May YTD. However, our value share of total vapour declined 12 ppts, due to the rapid growth of disposables. In both France and Germany, we maintained value share leadership despite a decline of 3.7 ppts to 41.4% (May YTD) in France, and 16 ppts to 43.8% (May YTD) in Germany. In the UK, our vapour value share was down 12.5 ppts to 17.4% (May YTD). However, in May 2022, we launched our new disposable offering, Vuse Go, in the UK as a pilot market, and we have further rapid roll-out plans for the second half of 2022.

* T5 markets by revenue are the U.S., UK, France, Germany and Canada; they account for more than 80% of total industry vapour revenue (closed systems).
^ The number of consumers of non-combustible products includes 3.9 million poly-users, those consumers that use multiple categories. Category specific data is shown inclusive of poly-users, while total Group consumer of non-combustible products adjusts for such poly-users.

CATEGORY PERFORMANCE REVIEW (cont..)

glo - TOBACCO HEATING PRODUCTS (THP): Hyper continues to drive volume share growth, and launch of new platform "glo hyper X2" and its new consumables

- Revenue up 39% (or 44% at constant rates of exchange) ahead of volume up 30.4% driven by the continued success of glo hyper, with consumer numbers up 1.2m to 7.9m^.
- glo's THP category volume share reached 19.6% May YTD, up 160 bps vs. FY 2021 in our Top 9* markets.
- Europe revenue up 84% (or 88% at constant rates of exchange) and volume up 42.6%, gaining volume share across all key markets.
- Japan reached 7.4% May YTD volume share of total cigarettes and THP, up 60 bps vs FY 2021.
- Hyper X2, our new upgraded device platform, launched in Japan in July 2022.

glo continued its strong momentum with total consumable volume up 30.4%, and revenue up 38.6%, or 44.2% at constant currency, ahead of volume growth driven by increased pricing in most key markets. glo's THP category volume share in the Top 9 markets was up 1.6 ppts versus FY 2021, reaching 19.6% May YTD. Excluding Russia and Ukraine, our share of Top 7 markets (representing over 65% of total THP volumes) reached 18.6%, up 1.2 ppts. This has been driven by the continued success of glo hyper.

In APME, volume grew 17.3%, with revenue up 9.0% or 15.6% on a constant currency basis driven by increased pricing. In Japan, where glo has 3.3 million consumers, glo's volume share of the tobacco market reached 7.4% May YTD, up 60 bps, as consumers continue to switch to reduced risk alternatives to cigarettes. In a fast growing market, our THP category volume share was 20.5% May YTD, down 70 bps vs FY 2021. In the second half of 2022, we plan to launch hyper X2, our new upgraded device platform supported by strong marketing activation plans.

In Europe, glo volume grew 42.6%, around three times faster than THP industry growth rates of 15.5% in the region, with revenue up 84% or 88% at constant currency. The total THP category is growing around 2.5 times faster than in APME and the region now represents more than 55% of our global THP volume (or 46% excluding Russia). Within this growing category, glo continued to grow volume share across all key European markets, with aggregate category share in the Top European markets reaching 20.4% May YTD, up 3.8 ppts vs. FY 2021. Excluding Russia, our aggregate share of the category reached 18.9% up 1.2 ppts.

In respect of the top European markets, glo performed very well driven by hyper. THP category volume share (May YTD compared to FY 2021) was up in Poland (by 13.5 ppts to 30.2%), Italy (by 260 bps to 15.4%) and in Germany (by 240 bps to 8.0%). However, in Romania, THP category volume share was down 120 bps to 19.2% in a competitive environment.

glo is now available in 26 markets, having launched in Slovakia and Lithuania in Q1 this year. Looking into the second half of 2022, we plan to enter further new markets and launch our new device hyper X2 in selected European markets by the end of the year.

* Top 9 markets industry THP sales by revenue – Japan, South Korea, Russia, Italy, Romania, Germany, Ukraine, Poland and Czech Republic. These markets represent more than 80% of Global industry THP revenue. Russia will remain in the top 9 markets until the sale of the Russian business is complete.

^ The number of consumers of non-combustible products includes 3.9 million poly-users, those consumers that use multiple categories. Category specific data is shown inclusive of poly-users, while total Group consumer of non-combustible products adjusts for such poly-users.

CATEGORY PERFORMANCE REVIEW (cont..)

VELO - MODERN ORAL: Continued volume share leadership in Europe on the back of continued innovation

- Revenue up 34% (or 37% at constant rates of exchange) ahead of volume up 10% with consumer numbers up 0.2m to 2.3m^.
- Category volume share in key (T5*) markets was down 3.4 ppts at 31.4%, driven by performance in the highly competitive U.S. market.
- In Europe, Velo's share of Total Oral was up in all T5 markets, maintaining volume share leadership.
- Velo maintains market leadership in 15 out of 17 markets in Europe.
- Further broadening of our portfolio offering, with Mini pouches and Max ranges across Europe.

Our Modern Oral portfolio, driven by Velo, continued to grow in the first six months of 2022, with revenue up 34.2% or 37.0% at constant rates of exchange, and volume up 10.1%. Volume share of the Modern Oral category in our T5 markets was lower, driven by a highly competitive pricing environment in the U.S. Excluding the U.S., the Group maintained leadership of the Modern Oral category despite a 30 bps decline in volume share to 69.2% in a fast growing category.

In the U.S., volume was down 56% to 179 million pouches (compared to 406 million pouches in the same period in 2021) with revenue up 50.7% (or 40.9% at constant currency) driven by increased pricing. Velo's volume share was down 5.0 ppts to 6.7% May YTD (vs FY 2021), as we reduced promotional support for the brand. Modern Oral remains only c.1.5% of total nicotine value share in the U.S. Current low moisture product formulations continue to result in low levels of average daily consumption and high poly-usage.

In Europe, volume grew 26.3% with revenue up 32.5% or 36.1% at constant currency, as the Modern Oral segment continues to expand and we continue to consolidate our industry leading position. In Norway, we maintained our leadership position with volume share of Modern Oral in line with FY 2021 at 64.1%.

Our volume share of Modern Oral in Sweden was 1.4 ppts down at 58.3% vs FY 2021, being impacted by heavy competitor discounting. However, our volume share of total oral in Sweden continued to grow, reaching 9.8% May YTD, up 170 basis points vs FY 2021, reflecting the continued strong growth of the Modern Oral category.

In Denmark (50 bps higher than FY 2021 at 93.1%) and Switzerland (up 100 bps vs FY 2021, to 92.5%), we strengthened our volume share leadership position in the Modern Oral category from a high base, and in the UK we achieved market leadership (in May 2022) with volume share reaching 48.3% May YTD, up 18.9% ppts vs. FY 2021.

We continue to drive innovation across the category, with Mini pouches now available in 20 markets, and Max ranges available in 15, driving strong overall growth. We expect to launch in further markets in the second half of 2022.

* Modern Oral focus markets of U.S., Sweden, Norway, Denmark and Switzerland.
^ The number of consumers of non-combustible products includes 3.9 million poly-users, those consumers that use multiple categories. Category specific data is shown inclusive of poly-users, while total Group consumer of non-combustible products adjusts for such poly-users.

CATEGORY PERFORMANCE REVIEW (cont..)

BEYOND NICOTINE

As consumers increasingly seek products offering wellbeing and stimulation characteristics, we continue to work with our venturing unit, Btomorrow Ventures (BTV), and selected third parties to strengthen our understanding of this market. Our well-established market research has given us a detailed understanding of consumer need states allowing us to invest in, acquire and develop natural ingredients and new delivery formats that satisfy these needs. We believe our supply chain strengths and trade market capabilities mean that, when ready, we can deliver associated products to consumers at speed and scale.

BTV has completed 18 investments since launch in 2020, including 2 exits which delivered on their strategic objectives for BAT whilst also achieving a positive financial return. We continue to invest in innovative consumer, new sciences and technology businesses aligned with our strategic priorities.

While we have impaired the investment in Organigram by £59 million (net of tax), partly due to the volatility in global cannabis stock prices, we remain pleased with our strategic collaboration, including our joint Product Development Collaboration Agreement focusing on research and product development activities of next generation adult cannabis products, with an initial focus on cannabidiol (CBD). Organigram continues to perform well and we continue to explore opportunities to expand our science-focused cannabis ecosystem as we monitor changes in the regulatory environment.

TRADITIONAL ORAL

Group volume declined 4.9% to 3.9 billion stick equivalents. Total revenue was £598 million, up 7.2% benefiting from a foreign exchange tailwind. At constant rates of exchange, revenue increased 0.6% (to £561 million), as continued strong pricing in the U.S. (price mix of 5.3%), which accounts for 97% of revenue from the category, was largely offset by reduction in volume in both Europe (down 8.9%) and the U.S. (down 4.4%). Value share was down 40 bps, due to increased pressure on consumer affordability impacting the Group's portfolio.

The Modified Risk Tobacco Product (MRTP) applications for Camel Snus were discussed by the Tobacco Products Scientific Advisory Committee (TPSAC) of the FDA in September 2018. After extensive work with the FDA, we expect that the applications will remain under review until at least the second half of 2022.

VALUE THROUGH COMBUSTIBLES

- Group value share up 10 bps, driven by the U.S. up 30 bps.
- Volume down 4.2%, driven by the sale of the Iranian business in 2021, lower volume in U.S. and Turkey and the impact of the conflict in Ukraine.
- Strong pricing, partially offset by negative geographic mix.
- Revenue growth up 2.3% or 0.6% at constant rates, with Combustibles price/mix +4.8%.

Group cigarette value share increased 10 bps vs FY 2021. This was driven by the continued performance of the strategic cigarette brands (including Lucky Strike) in the U.S. (up 40 bps), higher cigarette value share in APME (driven by increases in Japan, Bangladesh and Pakistan) and in Spain, Colombia and the UK. These more than offset lower value share in Germany, Russia, Romania and Canada. Group cigarette volume share declined 10 bps while the strategic portfolio performed well, up 10 bps compared to FY 2021. Pricing continued to be strong, across the Group, with combustibles price/mix of 4.8%.

Group cigarette volume declined by 4.0% to 303.4 billion sticks (30 June 2021: 316.0 billion sticks). Volume grew in:

- Brazil (where enhanced border security and restricted population mobility due to COVID-19 led to a reduction in illicit trade);
- Pakistan (where illicit trade reduced following significant excise-led growth in recent years); and
- Bangladesh (driven by the continued strength of the local portfolio).

This was more than offset by lower volume:

- In the U.S. where the Group's cigarette volume was down 13.4% to 30.0 billion sticks (30 June 2021: 34.7 billion sticks), mainly reflecting the industry decline due to higher fuel prices and a return to more normal consumer consumption patterns post COVID-19. In addition, the prior year trade inventory movements at the end of 2021 (in anticipation of the price increase in Q1 2022) unwound but were partially offset by the phasing of inventory ahead of the U.S. implementation of our Group-wide operating platform, SAP, in July 2022. While the second half will see the full unwinding of the inventory movements, we expect this to be partly offset by the benefit of a softer comparator;
- Due to the impact of the sale of the Iranian business in 2021; and
- Due to a number of other markets including Turkey, Nigeria, Denmark, Germany, and Canada.

Our GTR business is slowly recovering following the COVID-19 travel restrictions but remains impacted by the ongoing disruption and capacity constraints in the global travel industry.

CATEGORY PERFORMANCE REVIEW (cont..)

Volume of the strategic cigarette brands, collectively, declined 2.7% in the first six months of 2022:

- Dunhill's value share was largely flat as growth in Pakistan, South Africa and Taiwan offset lower value share in other markets including South Korea, Chile and the Netherlands. Volume was largely in line with the previous year, down by 0.1%, as growth in Pakistan and Brazil was offset by Indonesia and South Korea;
- Kent's value share was stable as growth in Chile and South Korea was offset by lower value share in Brazil, Japan, Romania and Russia. Volume was down 2.5%, largely due to the sale of the Iranian business in the second half of 2021;
- Lucky Strike's value share grew 50 bps, as continued growth in the U.S., Chile, Colombia, Japan, Russia, Germany, Spain, Bangladesh and Italy more than offset lower value share in Taiwan, Mexico and Brazil. Volume grew 22.5% driven by Russia, Japan and the U.S.;
- Rothmans' value share was down 10 bps as growth in the Czech Republic, Brazil, New Zealand and Colombia was more than offset by lower value share in Russia, Poland and South Korea. Volume was down by 3.4%, as growth in Brazil and Cuba was offset by the impact of Russia and due to the conflict in Ukraine as the Group suspended manufacturing and sale activities (see page 19);
- Pall Mall's value share was down 30 bps driven by the U.S., Australia, Germany, Chile, Malaysia and Romania. Volume was 7.0% lower, largely driven by the sale of the Iranian business (in the second half of 2021), the U.S. and Germany;
- The Group's U.S. domestic strategic combustibles portfolio largely performed well in terms of value share:
  - Newport value share increased 30 bps in the U.S., despite a 15.5% volume decline;
  - Natural American Spirit value share was up 10 bps, while volume was down 4.3% against the first six months of 2021; and
  - Camel's value share declined 20 bps in the U.S., with volume down against the same period of 2021 by 13.4%.

Volume of other tobacco products (OTP) declined 11.0% to 8 billion sticks equivalent (being around 3% of the Group's combustible portfolio).

Revenue from combustibles was up 2.3% at £10,774 million (30 June 2021: £10,527 million) as higher pricing across the Group more than offset the decline in volume. Revenue at constant rates of exchange was up 0.6% at £10,586 million (30 June 2021: £10,527 million).

SIMPLIFYING THE BUSINESS – Transitioning to the enterprise of the future

- £1.5bn annualised Quantum savings delivered six months early, with c. £275m savings in H1 2022.
- Simplification and productivity savings will continue to be a key focus.
- Quest is delivering the Enterprise of the Future, an organisation with sustainability at its core.

We continue to accelerate our journey towards creating the Enterprise of the Future through our transformation programme, Quest. We are accelerating the capabilities required to build our multi-category platform business, enhance our future sustainability and deliver our digital transformation, making good progress in H1 2022:

- **Q**uantum – We are optimising existing capabilities to drive excellence and efficiency while remaining agile and simplified. We continue to build new capabilities in consumer, customer, and business intelligence through our shared service centres.
- **U**nleash Innovation – We are transforming our R&D capabilities to drive a step change in innovation. We have significantly accelerated the speed of innovation, evidenced by Vuse Go, our fastest concept to market delivery to date. We are further strengthening our capabilities and innovation pipeline leveraging our new Global Device Development Centre in Shenzhen, China.
- **E**mpowered Organisation Programme – We continue to accelerate our development, adding over 2,250 new capability hires since 2019, in addition to developing a broad range of management training programmes. We achieved our first milestones towards 2025 Diversity & Inclusion ambitions, improving female representation in management and senior teams.
- **S**haping Sustainability – We continue to accelerate our journey towards becoming a sustainable Enterprise of the Future. Achievements in 2022 include being placed among the top 3% of companies across Europe for reduction in core (Scope 1 & 2) greenhouse gas emissions intensity (as published by the Financial Times Statista list of Europe's Climate Leaders), and Vuse winning the gold award at the Transform Awards Europe 2022 for 'Best Use of Sustainable Packaging'.
- **T**echnology & Digital – We have established the foundations needed for digital transformation. We launched the ePod 2+ connected device with MyVuse App providing a seamless experience with strong early results. In addition, the number of contactable consumers in our own CRM solution increased by 40% versus 2021.

We have delivered another c.£275 million of cost savings in H1 2022 and achieved our revised target of £1.5 billion gross savings six months early. This has been enabled through many Group wide initiatives over the last three years, including: large-scale organisational change, operational efficiency through route-to-market optimisation and supply chain productivity. Further simplification, productivity improvements and savings will continue to be a key focus as we sharpen our core capabilities which are critical to Building A Better Tomorrow™, address inflationary challenges and generate funds for our continued transformation.

REGIONAL REVIEW

The performances of the regions are discussed below. The following discussion is based upon the Group's internal reporting structure.

United States (U.S.):

For six months ended 30 June	Volume (unit) 2022 Unit	Volume (unit) Change %	Revenue (£m) Reported 2022 £m	Reported 2021 £m	Reported Change %	At constant rates FX £m	At constant rates 2022 cc £m	At constant rates 2021 £m	At constant rates Change %
New Categories			**414**	243	+70.4%	(27)	**387**	243	+59.2%
Vapour (10ml units / pods mn)	**166**	+19.4%	**402**	235	+71.1%	(26)	**376**	235	+59.9%
THP (sticks bn)	**-**	-	**-**	-	-	-	**-**	-	-
Modern Oral (pouches mn)	**179**	-55.7%	**12**	8	+50.7%	(1)	**11**	8	+40.9%
Traditional Oral (stick eq bn)	**3.5**	-4.4%	**580**	537	+7.9%	(38)	**542**	537	+0.9%
Total Non-Combustibles			**994**	780	+27.4%	(65)	**929**	780	+19.0%
Total Combustibles (sticks bn)	**30.1**	-13.4%	**4,928**	4,769	+3.3%	(322)	**4,606**	4,769	-3.4%
Other			**12**	14	-13.4%	(1)	**11**	14	-19.0%
Total			**5,934**	5,563	+6.7%	(388)	**5,546**	5,563	-0.3%

	Reported PfO (£m) Margin (%) 2022	2021	Change	Adjusted PfO (£m) Adjusted operating margin (%) Adj	FX	2022 cc	2021	Change
Profit from Operations (PfO)	**2,801**	2,570	+9.0%	335	(218)	**2,918**	2,766	+5.5%
Operating Margin	**47.2%**	46.2%	+100 bps			**52.6%**	49.7%	+290 bps

Use of the term "cc" refers to the variance between the 2022 adjusted performance, at 2021 exchange rates, against the 2021 adjusted performance.

- Vuse revenue growth up 71%, or 60% at constant rates of exchange, and is now the value share leader.
- Modern Oral revenue up 51% or 41% at constant rates of exchange, driven by increased pricing.
- Continued strong cigarette pricing with adjusted profit from operations up 5.5% (excluding the translational foreign exchange tailwind).

Regional Revenue and Profit from Operations

Reported revenue grew 6.7%, as strong cigarette and traditional oral pricing, and continued value share gains in Vuse and combustibles were supplemented by a translational foreign exchange tailwind of 7.0% due to the relative weakness of sterling to the US dollar. These were offset by the decline in combustible volume of 13.4% (see page 10). On a constant currency basis, revenue was largely in line with the first six months of 2021, down 0.3%.

Reported profit from operations grew by 9.0%, driven by the improved revenue, further cost reductions as part of Quantum, a credit in respect of a further partial buy-out of the U.S. pension fund (£15 million) and the translational foreign exchange tailwind. Excluding currency and adjusting items of £335 million (30 June 2021: £196 million), which mainly related to amortisation and impairment of brands (£146 million; 30 June 2021: £137 million), litigation charges, including Engle (£79 million; 30 June 2021: £22 million), charges related to the announced factory restructuring as part of Quantum (£92 million) and costs incurred as the Group brought the U.S. onto the single instance of the SAP system (£24 million; 30 June 2021: £14 million), adjusted, constant currency basis profit from operations was up 5.5%.

New Categories

In vapour, Vuse revenue was up 71%, being growth of 60% at constant rates of exchange. Vuse became the value share leader in the first half of 2022 with 36.3% value share, up 380 bps against FY 2021, leading in 34 U.S. states.

In May 2022, we were delighted to receive Vapour marketing authorisations for Vuse Ciro and Vibe in original flavour from the FDA. Together with our Vuse Solo authorisation from last year, this gives the Group the broadest portfolio of market authorisations provided to any vapour company in the U.S., and we believe it also supports further confidence in our Vuse Alto Premarket Tobacco Product Application (PMTA), which shares the same foundational science. Subject to the ongoing FDA discretion, all Vuse products currently available in the U.S. may continue to be marketed.

REGIONAL REVIEW

United States cont...

In Modern Oral, revenue, driven by Velo, increased 51% in the first six months of 2022 (to £12 million), or 41% at constant rates of exchange, despite lower volume (down 56%) in a highly competitive pricing environment, with volume share down 5.0 ppts to 6.7%. Current low moisture product formulations continue to result in low levels of average daily consumption and high poly-usage.

In the U.S., Modern Oral remains only c.1.5% of total nicotine market, by value. While we continue our main investment focus on the much larger vapour category, we have submitted a PMTA for Velo (following on from the PMTA submitted in 2021 for glo hyper) to ensure we are well prepared for future opportunities in the world's largest New Category market.

Traditional Oral

Traditional Oral revenue increased by 7.9%. However, excluding the translational foreign exchange tailwind, revenue increased 0.9% as pricing was offset by lower volume (down 4.4%). Value share down 40 bps, due to increased pressure on consumer affordability impacting the Group's more premium skewed portfolio.

The Modified Risk Tobacco Product (MRTP) applications for Camel Snus were discussed by the Tobacco Products Scientific Advisory Committee (TPSAC) of the FDA in September 2018. After extensive work with the FDA, we expect that the applications will remain under review until at least the second half of 2022.

Combustibles

Combustibles revenue was up 3.3%, as pricing and a foreign exchange tailwind more than offset lower volume (down 13.4%). At constant rates, this was a decline of 3.4%. The reduction in volume was largely due to the industry decline which was due to higher fuel prices and a return to more normal consumer consumption patterns post COVID-19. In addition, the prior year trade inventory movements at the end of 2021 (in anticipation of the price increase in Q1 2022) unwound but were partially offset by the phasing of inventory ahead of the U.S. implementation of our Group-wide operating platform, SAP, in July 2022. While the second half will see the full unwinding of the prior year inventory movements, we expect this to be offset by the benefit of a softer prior year comparator.

Value share increased 30 bps compared to the FY 2021, driven by our premium brand Newport and the continued success of Lucky Strike. We have not observed any acceleration in downtrading in our portfolio to date.

While combustible volume share was down 20bps versus full year 2021, we have gained sequential monthly volume share since January 2022.

On 29 April 2022, the FDA announced a proposed tobacco product standard that would prohibit menthol as a characterising flavour in cigarettes in the U.S. The Group's U.S. subsidiary, RAI Services Company, has participated in the public consultation and has submitted robust comments grounded in science-based evidence.

We continue to believe that the published science does not support regulating menthol cigarettes differently from non-menthol. We believe the scientific evidence neither shows a difference in health risks between menthol and non-menthol cigarettes, nor indicates that menthol cigarettes adversely affect initiation, dependence, or cessation.

The FDA rulemaking process is a multiyear, multistep process and the Group will continue to participate as appropriate and will continue to monitor the developments and any implications to the carrying value of Newport and Camel. In 2021, 55% of the Group's U.S. cigarette volume was in menthol, being c.6.0% of the Group's total cigarette volume.

REGIONAL REVIEW

ASIA-PACIFIC AND MIDDLE EAST (APME):

For six months ended 30 June	Volume (unit) 2022 Unit	Change %	Revenue (£m) Reported 2022 £m	2021 £m	Change %	At constant rates FX £m	2022 cc £m	2021 £m	Change %
New Categories			**248**	228	+9.5%	15	**263**	228	+15.9%
Vapour (10ml units / pods mn)	**6**	+60.8%	**9**	9	+7.7%	-	**9**	9	+6.2%
THP (sticks bn)	**4.8**	+17.3%	**235**	216	+9.0%	14	**249**	216	+15.6%
Modern Oral (pouches mn)	**211**	+90.5%	**4**	3	+54.6%	1	**5**	3	+60.2%
Traditional Oral (stick eq bn)	**-**	-	**-**	-	-	-	**-**	-	-
Total Non-Combustibles			**248**	228	+9.5%	15	**263**	228	+15.9%
Total Combustibles (sticks bn)	**109.8**	+0.9%	**1,825**	1,781	+2.5%	32	**1,857**	1,781	+4.3%
Other			**33**	46	-31.4%	(2)	**31**	46	-35.3%
Total			**2,106**	2,055	+2.5%	45	**2,151**	2,055	+4.7%

	Reported PfO (£m) Margin (%) 2022	2021	Change	Adjusted PfO (£m) Adjusted operating margin (%) Adj	FX	2022 cc	2021	Change
Profit from Operations (PfO)	**155**	769	-79.8%	656	10	**821**	868	-5.4%
Operating Margin	**7.4%**	37.4%	-30 ppts			**38.2%**	42.2%	-400 bps

Use of the term "cc" refers to the variance between the 2022 adjusted performance, at 2021 exchange rates, against the 2021 adjusted performance.

- Volume and revenue growth across all three New Categories.
- Volume share of glo in Japan increased to 7.4% of total cigarettes and THP.
- Total nicotine share in Japan reached 20.7% up 60 bps.
- Profit from operations impacted by adjusting charges related to Quantum (including the exit from Egypt and the planned closure of the Singapore factory) and charges related to the alleged historical breach of sanctions.

Regional Revenue and Profit from Operations

Revenue increased 2.5% despite a translational foreign exchange headwind of 2.2%. At constant rates, revenue increased 4.7% driven by volume growth in combustibles (partly due to the allocation, from 1 January 2022, of the North Africa business to APME) and higher revenue from New Categories, particularly from THP in Japan.

Reported profit from operations declined 79.8% driven by charges in respect of the alleged historical breach of sanctions (see page 20), costs related to Quantum which included charges in relation to the planned closure of the Group's factory in Singapore and the announced exit from Egypt (£120 million), which were, in aggregate, higher than the impairment charges recognised in respect of the sale of the Group's operations in Iran, which was held-for-sale at 30 June 2021 and sold in August 2021.

Excluding adjusting items discussed above, adjusted profit from operations was down 5.4% at constant rates of exchange, largely due to the change in excise terms in Australia in 2021 and the impact of the sale of the Iranian business in August 2021. Adjusted operating margin reduced by 400 bps (at constant rates) as the negative mix impact of growth in lower margin, higher volume markets more than offset continued savings from Project Quantum and productivity initiatives.

New Categories

In THP, consumable volume increased by 17.3% to 4.8 billion sticks in the first half of 2022 as glo hyper continued to make good progress. THP revenue grew 9.0% or 15.6% on a constant currency basis, driven by strong volume growth, particularly in Japan where glo's volume share has continued to rise, reaching 7.4% volume share of cigarettes and THP May YTD. This was an increase of 60 bps relative to FY 2021 as consumers continue to switch to reduced risk alternatives from cigarettes. The Group has further enhanced the consumer offer in Japan with the launch of hyper X2 early in the second half of the year.

Combustibles

Combustibles revenue grew 2.5%, or 4.3% on a constant currency basis. Volume was up 0.9%, driven by Pakistan and Bangladesh and the allocation of the North Africa business to APME (effective 1 January 2022, with no restatement of prior periods as the movement was not material). These more than offset the impact of the sale of the Iranian business in August 2021.

We continued to grow value share in combustibles (up 40 bps in the first half of 2022), with volume share up 50 bps in the first half of 2022 led by gains in Japan, Bangladesh and Pakistan.

REGIONAL REVIEW

AMERICAS AND SUB-SAHARAN AFRICA (AmSSA):

For six months ended 30 June	Volume (unit) 2022 Unit	Change %	Revenue (£m) Reported 2022 £m	2021 £m	Change %	At constant rates FX £m	2022 cc £m	2021 £m	Change %
New Categories			**96**	54	+78.0%	(3)	**93**	54	+71.5%
Vapour (10ml units / pods mn)	**36**	+37.2%	**96**	54	+78.0%	(3)	**93**	54	+71.5%
THP (sticks bn)	**-**	-	**-**	-	-	-	**-**	-	-
Modern Oral (pouches mn)	**1**	+0.0%	**-**	-	-	-	**-**	-	-
Traditional Oral (stick eq bn)	**-**	-	**-**	-	-	-	**-**	-	-
Total Non-Combustibles			**96**	54	+78.0%	(3)	**93**	54	+71.5%
Total Combustibles (sticks bn)	**71.7**	+0.4%	**1,756**	1,651	+6.4%	(41)	**1,715**	1,651	+3.9%
Other			**106**	91	+16.0%	(10)	**96**	91	+5.6%
Total			**1,958**	1,796	+9.0%	(54)	**1,904**	1,796	+6.0%

	Reported PfO (£m) Margin (%) 2022	2021	Change	Adjusted PfO (£m) Adjusted operating margin (%) Adj	FX	2022 cc	2021	Change
Profit from Operations (PfO)	**759**	694	+9.4%	10	(15)	**754**	709	+6.5%
Operating Margin	**38.7%**	38.6%	+10 bps			**39.6%**	39.5%	+10 bps

Use of the term "cc" refers to the variance between the 2022 adjusted performance, at 2021 exchange rates, against the 2021 adjusted performance.

- Revenue growth of over 70% in New Categories, driven by Vuse.
- Vuse performing extremely well in key markets of Canada, South Africa and Colombia.
- Combustibles volume and price/mix growth, with markets recovering from COVID-19 impacts.

Regional Revenue and Profit from Operations

Revenue increased by 9.0%, driven by higher revenue in both Vapour and Combustibles, with the latter underpinned by continued strong pricing in a number of markets. This was supported by a translational foreign exchange tailwind caused by the strength of a number of currencies relative to sterling, including the Brazilian real, Canadian dollar, Nigerian naira and Kenyan shilling. Excluding translation foreign exchange, revenue increased by 6.0% on a constant currency basis.

Reported profit from operations grew by 9.4%, driven by the growth in revenue and the robust management of the cost base, with operating margin up 10 bps. Excluding adjusting items (which were mainly in respect of the Group's restructuring programme Quantum), and on a constant currency basis, adjusted profit from operations was up 6.5%, with adjusted operating margin up by 10 bps.

New Categories

In vapour, revenue grew 78%, with volume up 37% as the Group further extended its leadership position in Canada, supported by the launch of Vuse ePod2+ (the Group's first connected device), with value share of 1.8% in May 2022, and over 60% of device sales now in Canada in the new connected format. In South Africa, vapour revenue continued to perform well, with volume nearly three times higher than the first six months of 2021, driven by the expansion of Vuse.

Combustibles

Combustibles revenue was higher (up 6.4%), partly due to the translational foreign exchange tailwind. On a constant currency basis, revenue grew 3.9%, as markets began to normalise after the recovery from COVID-19 (particularly in South Africa and South America). Pricing across the region was partly offset by negative geographic mix, with some downtrading in light of increased inflationary pressures. We are seeing the re-emergence of illicit trade in some markets although we are expecting this to normalise in the remainder of the year.

AmSSA's combustible share declined 60 bps on a volume basis and 40 bps on a value basis driven by Canada, Mexico, South Africa and Brazil.

REGIONAL REVIEW

Europe:

For six months ended 30 June	Volume (unit) 2022 Unit	Change %	Revenue (£m) Reported 2022 £m	2021 £m	Change %	At constant rates FX £m	2022 cc £m	2021 £m	Change %
New Categories			**525**	358	+46.4%	12	**537**	358	+49.8%
Vapour (10ml units / pods mn)	**84**	+8.7%	**110**	100	+9.6%	2	**112**	100	+11.7%
THP (sticks bn)	**6.2**	+42.6%	**262**	143	+83.5%	6	**268**	143	+87.5%
Modern Oral (pouches mn)	**1,379**	+26.3%	**153**	115	+32.5%	4	**157**	115	+36.1%
Traditional Oral (stick eq bn)	**0.4**	-8.9%	**18**	21	-10.8%	1	**19**	21	-5.2%
Total Non-Combustibles			**543**	379	+43.4%	13	**556**	379	+46.8%
Total Combustibles (sticks bn)	**100.0**	-9.3%	**2,265**	2,326	-2.7%	143	**2,408**	2,326	+3.5%
Other			**63**	56	+14.7%	3	**66**	56	+18.4%
Total			**2,871**	2,761	+4.0%	159	**3,030**	2,761	+9.7%

	Reported PfO (£m) Margin (%) 2022	2021	Change	Adjusted PfO (£m) Adjusted operating margin (%) Adj	FX	2022 cc	2021	Change
Profit from Operations (PfO)	**(37)**	874	-104.3%	966	68	**997**	892	+11.7%
Operating Margin	**-1.3%**	31.7%	-33 ppts			**+32.9%**	32.3%	+60 bps

Use of the term "cc" refers to the variance between the 2022 adjusted performance, at 2021 exchange rates, against the 2021 adjusted performance.
From 1 January 2022, the North African markets were transferred to APME. From that date ENA will be referred to as Europe. The move was immaterial to all key performance indicators with no restatement of prior periods.

- New Category revenue up 46.4% or 49.8%, at constant rates, compared to the first half of 2021.
- glo hyper expansion continues with revenue up over 80% and volume 42.6% higher.
- Combustibles value share declined 30 bps with volume share down 40 bps.

Regional Revenue and Profit from Operations

Total revenue was up 4.0%, despite a currency headwind of 5.7%. Excluding the currency headwind, revenue increased 9.7% at constant rates of exchange. This was driven by growth in revenue from all New Categories (with non-combustibles now representing 18.9% of total revenue) and robust pricing in combustibles which more than offset volume weakness partly due to the conflict in Ukraine where the Group temporarily suspended manufacturing and sales during the period (see page 19) and the move of North Africa to APME.

Profit from operations was impacted by the £957 million of impairment charges recognised as the Group classified the assets and liabilities in Russia as held-for-sale (see pages 33 and 34). Excluding these, and other adjusting items related to the Group's restructuring programme Quantum, and a translational currency headwind, adjusted profit from operations was up 11.7% at constant rates. This increase was driven by a good operational performance characterised by increased revenue and stringent cost management, with adjusted operating margin up 60 bps.

New Categories

Vapour revenue increased by 9.6%, continuing the momentum from 2021 driven by volume growth. Value share in closed systems in the UK, France and Germany continued to grow, with aggregate value share reaching 64.4% May YTD up 820 bps. Overall vapour value share was down (12 ppts) due to growth of the disposables segment. In May 2022, we launched Vuse Go, our new disposable offering, in the UK, with further launches planned.

THP volume performed well, with revenue up over 80% on volume over 40% higher, driven by the continued progress of glo hyper in a number of markets across the region (including Italy and Poland). glo has consistently grown volume share in key THP markets across Europe since the launch of glo hyper in 2020. glo's May YTD 2022 volume share of THP in the key markets rose 3.8 ppts to 20.4%. Excluding Russia and Ukraine, this was a growth of 5.2 ppts to 17.7%.

In Modern Oral, revenue was up 32.5%, driven by volume growth (up 26%) with new innovations of Mini and Max pouches now available across the region. In the UK, we achieved volume share leadership. In Denmark and Switzerland, we continued to strengthen our volume share leadership position in the Modern Oral category from a high base, while maintaining our position in Norway. Modern Oral volume share in Sweden was down, impacted by heavy competitor discounting.

Combustibles

Combustibles revenue fell 2.7% but, on a constant currency basis, increased by 3.5% as combustible volume declines of 9.3% (largely due to the conflict in Ukraine (see page 19) and lower volume in Turkey, Germany and Denmark, combined with the move of North Africa to APME) was offset by pricing. Value share declined 30 bps, with volume share down 40 bps, driven by Russia, Germany, Romania and Poland.