2019 Second Half Pre-Close Trading Update Conference Call and Audio Webcast

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

QUESTIONS FROM

Adam Spielman, Analyst, Citi

Gaurav Jain, Analyst, Barclays

Alan Erskine, Analyst, Credit Suisse

Alicia Forry, Analyst, Investec

Sanath Sudarsan, Analyst, Morgan Stanley

Nico von Stackelberg, Analyst, Liberum

Rey Wium, Analyst, Standard Bank Securities

Operator

Hello and welcome to the BAT 2019 second half pre-close conference call. Throughout the call, all participants will be in listen only mode and afterwards there will be a question and answer session. Please note this call is being recorded. I will now hand over to Mike Nightingale, Head of Investor Relations. Please begin.

Mike Nightingale, Head of Investor Relations

Good morning everyone. Mike Nightingale here, Head of Investor Relations and with me this morning is Tadeu Marroco, our finance director. Welcome to our first pre-close conference call. This is the first time we've held a conference call for our pre-close trade update, and we hope that you'll find it useful.

Just before we begin, I'd like to draw your attention to the cautionary statement regarding forward-looking statements contained in the trading update. But I'll now hand over to Tadeu who'll say a few short words on the current trading before we open it up to questions. Unless otherwise stated, our comments will focus on constant currency adjusted measures.

Tadeu Marroco, Finance Director

Thank you Mike. Good morning everyone and welcome. I'm very pleased to have this opportunity to talk to you about how we are progressing in 2019 and I want to thank you for joining us this morning. As you can see from today's announcement, the business continues to perform well. We are building on the good progress we made in the first half and continuing our journey to transform the business. We are driving value growth in combustibles, we are investing to deliver step change in New Categories, and we are transforming the business to create a stronger, simpler, more agile BAT.

As a result we are on track for one of our best financial performances for many years. We expect that adjusted revenue and adjusted profit from operations should be in the upper half of our guidance range for 3-5% for revenue, and 5-7% for operating profit. This reflects a good performance in combustibles, where we are seeing share growth and strong price mix as well as good growth in new categories.

As you know, we have increased our focus on value growth in combustibles. We aim to deliver superior and winning product experience, whilst driving efficiencies and reducing environmental impacts. We have rationalised and simplified the portfolio. We are focused on the Global Strategic Brands, and investing in key markets. This is driving value share, which is up 20 basis points with the Strategic Brands up 55 basis points.

In addition, I'm pleased to say we are back to growth in volume share, which is up over 10 basis points having been down earlier in the year.

We continue to expect industry volume to be down around 3.5% this year. BAT full year volumes are expected to be broadly in line with the industry, after adjusting for the continued impact of Egypt and Venezuela, and a

60 basis points impact from a one-off stock reduction in Russia. The good price environment has continued, and we expect full-year combustible price mix to be in excess of 7%.

In the US, we are really pleased with how the business is performing and we expect constant currency revenue growth to be within the 3-5% group guidance range. Good pricing and value share growth have more than offset the industry volume decline.

US value share is up 30 basis points. We have worked hard to position ourselves and are growing in all the right areas, consolidating our leadership position in menthol and adult smokers under 30 and continuing to grow our share of Premium.

We continue to expect the US industry volume to be down around 5.5% in 2019, with the timing and frequency of pricing during the year being one of the main drivers as well as the impact from the growth of vapour.

Although the vapour market has slowed, we are not anticipating a significant flowback to cigarettes in 2019. We would expect US volumes to be down around 4-6% next year, depending mainly on pricing and the regulatory environment.

Turning now to new categories. Our approach to multiple category development is underpinned by robust product stewardship, age restricted access and responsible marketing practice. We expect to deliver good Full Year new category revenue growth at the lower end of our 30-50% guidance, reflecting the negative US news flow.

The vapour market has lowered in the last few months, with industry vapour sales to retail in the US down around 25% and consumer offtake down 10%, although we have seen some signs of recovery in the most recent data. New category growth excluding US vapour is on track to deliver in the middle of the range, in line with our guidance at the interims. In the US, Vuse Alto continues to grow and has reached a value share of 11.1% in October, driving a value share of 17.5% for the overall Vuse family, which is now the number two in the market. At present, Alto is the only top five brand growing volume in a declining market, and has more than doubled its offtake share of replacement cartridges in the second half. I'm also pleased to say that we just received confirmation from the FDA that our Vuse Solo PMTA application has been accepted for scientific review.

Vype continues to do well in the two largest markets outside the US. Value share reached 11.8% in the UK and 19.2% in France in October, with ePod now successfully launched in both markets. In Canada, Vype is the fastest growing brand, reaching a value share of 27.6% in October, up 570 basis points since July.

In THP glo is holding share in Japan at 4.9% year to date. As you know we recently launched our new glo device, glo pro, glo nano and glo sens, together with a new range of consumables. We have yet to see the benefits of this in our share data, as distribution for nano and pro is still building and we have only just launched glo sens. However early indications are encouraging. For example, consumers have told us they really like the benefits of our induction heating technology. They like the fast ramp-up time and the boost button, and appreciate the improved sensorial experience. It's a good performance in a very competitive market, where we have seen a lot of new products launched from competition in the first half.

Importantly, we continue to grow share in the overall nicotine market in Japan strongly, and we have reached 18.4% year to date up from 16.3% last year.
In Russia glo has been demonstrating consistently improved performance, with share of tobacco nicotine now over 1% in key cities, including Moscow.
In Modern Oral, Velo's rollout in the US has now expanded to 75,000 outlets. The brand has already reached a category volume share of 9.2% in October, with shares in excess of 20% in nine states and more than 10% in a further nine states. Lyft and Epok also continue to do well, consolidating their leadership of the modern oral category outside of the US. In Russia, Lyft is the fastest growing modern oral brand in 2019.

Moving on to the balance sheet, we are determined to reduce leverage. We remain committed to a full year reduction in current-neutral Adjusted Net Debt/Adjusted EBITDA of circa .4x and are on track to deliver full year free cash flow after dividends of £1.5 billion.

To summarise, the business continues to perform well and we are on track to deliver on our commitments to high single-figure EPS growth on a constant currency basis. If FX rates were to remain as at November 25, full year adjusted diluted EPS growth would benefit from a currency translation tailwind of around 1.2% this year, with this becoming a headwind of 2% in 2020.
We're expecting a strong performance in 2019, driven by good revenue growth and continued share gains in combustibles, together with good revenue growth across our new categories. Thank you, and I will now open the call to questions.

Operator

Thank you. If you wish to ask a question, please press 01 on your telephone keypad now to join the queue. If you find your question has been answered before it's your turn to speak, you can withdraw from the queue by pressing 02 to cancel. So once again that's 01 to ask a question or 02 if you need to cancel. There'll be a brief pause now whilst we register your questions.
And our first question comes from the line of Adam Spielman at Citi. Please go ahead, your line is open.

Adam Spielman, Analyst, Citi

Thank you very much and good morning. And thank you also for such a detailed press release. My questions concerns the definition of market share, in particular I guess in glo in Moscow and also for Velo in the US. So you talk about over 1% market share for glo in Moscow and about 9% in the US, is that shipment share or is that Nielsen share across the whole of Moscow and the US, or is it share within the stores that you are selling, because obviously sometimes these definitions can change. That's my first simple question.

Tadeu Marroco, Finance Director

Ok, look, this is shipment share of the whole countries not where we just say the shipment share of the place where we are talking about.

Adam Spielman, Analyst, Citi

Ok, fine. Perfect. Very simple, very clear. Am I correct that, when I think about the whole shape of this report, I think on the one hand clearly volume in Russia, or shipment volume, because of a destock is it's getting weaker, and Egypt and Venezuela, but on the other hand, sales growth overall constant currency is fine, and that suggests to me that perhaps if anything the US is getting a little bit stronger as we come to the year end. Is that a fair point, that the US if anything is getting a little bit better for you? And that is offset by slight weakness in other markets?

Tadeu Marroco, Finance Director

Yeah, the US market specifically, we are keeping our guidance of 5.5 for the industry decline. We have seen recently a small uptake in terms of volume in cigarettes. We are not making any change to the guidance still, but this can well be a consequence of timing of pricing. So we are yet to see a major relevant impact coming for example from the news flow from vaping, we haven't seen that yet, that's why we are keeping our guidance 5.5. Now saying that, we are very pleased with the results we are getting from revenue in our US business within our range of 3-5% as we stated in the statement this morning. And this coupled with a good pricing and share environment across the world is giving us the upper range of our guidance this year. In some sub-volumes as I quoted in the Interims about Egypt and Venezuela, just as a reminder as well, I think we all know what is happening there and we basically have ownership of or control the market. We are leaders in the markets and we suffer most because of the deterioration of the economic situation there. In Egypt we had a [? 00:12:09] tax that's impacted the low end of the portfolio where we are more present and I mentioned those two points there.

In Russia, the reduction in distribution in inventories has to do with the fact that we are looking, as I said before as well, to all the opportunities we have in terms of cash management initiatives. One of that is review improvement in supply chain. We saw an opportunity happening from Russia as a consequence of the closure of the BAT factory in Saratov, and this will translate into some impact this year. That's why we are flagging that.

Adam Spielman, Analyst, Citi

OK. Thank you very much.

Operator

Thank you. Our next question comes from the line of Gaurav Jain of Barclays. Please go ahead, your line is open.

Gaurav Jain, Analyst, Barclays

Thank you. Good morning, and thanks for the detailed press release as well as the conference call. I have a few questions. Number one is on the 2020 US volume outlook. Does this include any impact from minimum age 21 regulation?

Tadeu Marroco, Finance Director

The idea behind the range of 4-6 is exactly to cope with those uncertainties and the reason why we are mentioning the drivers of uncertainties on the regulatory front, you're absolutely right; 21 minimum age is presently as we speak by general be around 40% of the sales in the US. So we don't know if there will be federal legislation that will increase this percentage and by when. And so we want to try to flag this possibility, that's the reason on the range. The other regulatory environment that can impact was dividend [ph 00:13:56] markets on the vaping side, depending on how the enforcement will be in terms of the PMTA coming in May, plus the guidance that we expect from the FDA as an interim until the PMTA. We still don't- we are uncertain about that. So I think that on the regulatory front, these are the major swings and hence the range.

The other element of the range has to do with the timing of pricing, as you can imagine as well, and the whole macroeconomics, like gas price and the macro [ph 00:14:30] itself.

Gaurav Jain, Analyst, Barclays

Sure, that's very helpful. Second is the guidance for new categories that are new for 2020 and longer term. Your guidance says you're not 30 to 50% for the next few years, and we yet find that every few months it's very hard to forecast what’s going to happen in the US vapour market. So is there an opportunity for you to reframe the way you communicate the new category guidance to the market?

Tadeu Marroco, Finance Director

Yeah, look - I think that more important is the ambition that we have set of 5 billion revenue by 2023, 2024. And this, we are sticking to that. For sure, that to get to this position, this will require between 30-50% growth on average. But you are right, one thing that we have learned is that it's unpredictable. The US is just showing that for us. It's hard to forecast in the short term, you're absolutely right on that. It depends on regulatory framework, it depends on consumer acceptance.

But our ambition is completely unchanged and we are confident that we are doing the right investment in consumer insights, we are doing the right investments in terms of renting the building. And we have a lot of plans coming through in 2020 in terms of new launches, and we can provide a bit more detail in 2020 if that's necessary. But the bigger picture is the ambition to deliver the 5 billion, and we are very, very happy with the performance that we have underlying in terms of vaping. You saw the statement that we released today. We have more than doubled our share in Vuse Alto over the last three months in the US. We are doing extremely well with equivalents of Alto which is [? 00:16:22] in Canada, in France where we are now market leaders, in the UK, which are the biggest markets in vaping.

We are making very good inroads in terms of modern oral, not just in US but outside the US as well. And we are increasing our competitive position in THP with the new launches. So that's what matters. Our ambition continues, our commitment, our levels of investments, and we will want to get to the 5 billion 2023, 2024.

Gaurav Jain, Analyst, Barclays
Sure. Thank you. And if I can ask one last question: I believe you haven't really shared your capacity for Velo so far and what the capacity and distribution plans can be going forward. So can you shed some light on those?

Tadeu Marroco, Finance Director
Yeah, we don't have any constraints in terms of Velo capacity. We have, as I said, now been present in 75,000 stores. By the end of the year we want to be above 100,000 stores in Velo. We have been setting our capacity to be able to cope with all of these demands. And in terms of million cans and we don't expect any type of restrictions on that side.

Gaurav Jain, Analyst, Barclays
Great. Thanks a lot.

Operator
Thank you. Our next question comes from the line of Alan Erksine at Credit Suisse. Please go ahead, your line is open.

Alan Erskine, Analyst, Credit Suisse
Good morning, guys. Just two questions from me. One is on the net debt to EBITDA guidance. You're saying that you still expect it to be down approximately 0.4 times, excluding the impact of FX. If the exchange rates stay as they are as Sterling says at one 128, 129, would that also be the case in reported terms or might it even be more favourable? My second question is just on the price mix benefit of in excess of seven. Can you give some idea of what the geographical mix component is within that? Thank you.

Tadeu Marroco, Finance Director
Yeah, OK. Good morning. Net debt EBITDA is .4x FX. You're right, if the currency stays -- it's a big if -- it's very unpredictable and you'll note that this news will happen on the 31st of December. But if it stays around the 125, we are in the range between .4 to .5. So we probably will be seeing some uptick in the .4x guidance FX. And in terms of the price mix, we are facing a positive geographic price mix. We are basically seeing a bit shorter than 1%, something closer to .65% on geographic mix. And it's basically a consequence of us making big inroads in the likes of Japan, for example. And which is something that has changed a lot over the previous years where we used to have drags on geographic mix and we are very pleased that we now have upsides coming from that.

Alan Erskine, Analyst, Credit Suisse
Thank you

Operator
Thank you. And just as a reminder to participants, if you do wish to ask a question please dial 01 on your telephone keypads now. Our next question comes from the line of Alicia Forry of Investec. Please go ahead, your line is open.

Alicia Forry, Analyst, Investec
Hi, good morning. Just a few questions from me. One: you mentioned some recent improvement in the US vaping market, just wondering if you could flesh out a bit of what you're saying there, what your current assessment is of that market. And do you think vapour products in the US can see positive volume growth in 2020, assuming approval from the FDA comes through with limited disruption business? And then second, I was wondering if you could discuss in the heated tobacco, what you've seen as far as pricing developments in market where glo and iQos are competing against each other. That would be helpful. Thank you.

Tadeu Marroco, Finance Director
OK, so just coming to your first question. We saw a reduction in terms of sales to retail. The problem that we saw in the vaping USA has basically been driven by both consumer uptake and retail confidence. In terms of sales to retail, I mentioned volumes in terms of cartridge, comparing the position that we had in mid of the year. That was before all these new flows coming through the market. We had a decline around 20 to 25% and we are seeing, recently, a recovery around 7% when you compare the first positions of November compared with October. So we have seen some recovery from that, for sure that we are performing better than that, because we are gaining share in that depressed industry.
In terms of your question around the FDA, it is still very uncertain, the positioning of the FDA. It is still to be seen what will probably materialise from that. We're trying to engage as much as we can with the FDA, but one thing that we are very confident with is the fact that we have received the approval from the FDA for our first submission of Vuse Solo for scientific review. This is quite important for us in terms of our portfolio of vapours in the US, and we have to bear in mind that all types of guidelines that the FDA will be issuing to address mainly the youth epidemic, which we fully support and endorse. These will be interim steps until we get to May 2020 with PMTA coming through. So that's the major impact on that.
Now, your second question. Can you remind me, Alicia, on the second question, it was related to what?

Alicia Forry, Analyst, Investec
Sure. I was just wondering about in heated tobacco, in markets where glo and iQos are competing against each other, if you could update us on how pricing has evolved on heated tobacco in your experience thus far.

Tadeu Marroco, Finance Director

Yeah, look, this depends- this varies a lot depending on the market. If you take Japan, for example, we have more than one price position in the market. We have some of those products positioned in the premium of the market, some more in the work [ph 00:23:40] of the markets, in the weighted average price of the market. And if you see outside Japan has been a bit below premium on the average of the prices. We are trying to compete in those price positions with [? 00:23:57]. We are not seeing much dissimilar pricing between us and them. I think that this has been very, very stable over the last few months, I would say. OK?

Operator

Thank you. Our next question comes from the line of Sanath Sudarsan of Morgan Stanley. Please go ahead, your line is open.

Sanath Sudarsan, Analyst, Morgan Stanley

Good morning, guys, just two questions from me. One on the coming back into the US volumes and your expectations for 2020 and your range of -4 to -6%, can you just walk us through why do you see the top end of the range being favourably impacted by PMTA, please? And the second one is on your NGP guidance which you have longer term of about 5 billion by 2023/2024? How much of that do you see coming from the US overall? Thanks.

Tadeu Marroco, Finance Director

Sanath, look, we always said that the PMTA will create a contest with [ph 00:25:08] space between 1 to 1.5 billion in the US. We saw, by our own experience, how cumbersome can be the process of generating all the scientific material to get through the line. And it's not, as you know, it's not just the science that will be important here, but also marketing practice. So we believe, given the timing resource, physical resource in terms of knowledge and also financial resources that a number of the current players will probably not be continuing in the markets after that guideline is established. So that's why it depends a lot in terms of enforcement, in our perspective, and also depends on what will be done until there in terms of the guidelines test that the FDA is supposed to be releasing. That's the level of uncertainty that we have that could have an implication in the FMC markets and that's the reason why we are putting this range. That's basically the reason of the range.

In terms of the 5 billion: this will be a combination not just about the geography, but it would be a combination of categories. And there's, as you can imagine, this involves on a very frequent basis, as we launch new products, we'll see it attract new consumers and it’s very hard to predict, necessarily, by market and by category, where we're going to land. For sure, as we keep saying, that we have invested a lot in terms of consumer insights. That's the most important thing to be able to navigate into these [? 00:26:55] category strategies that BAT has.

There's a lot of insights and foresights that we are generating, that we have invested heavily over the last 12 months. So we have very good information of each category, and that's what defines us in terms of resource allocation, where we deploy our investments. But for sure, if you see after we are in the market with one

category. A bit more traction than we were expecting. We want to invest more and this necessarily probably will make this as a kind of a changing target within the 5 billion.
But all our indications shows that this is the number that we will probably be later able to achieve, which will mean for us a number above 20% of our revenues coming from new capex.

Sanath Sudarsan, Analyst, Morgan Stanley
Thank you very much. Just going back to the first question on the numbers and volume. Does that mean that you expect from the PMTA process a migration of consumers back into the cigarette fold from NGP?

Tadeu Marroco, Finance Director
Well, in the US, 40% of consumers are dual users between vaping and cigarettes. I think that's what you could say, depending on how hard the offers are in the market for vaping, that you'll probably see less outflow of consumers from cigarettes to vaping. I think that what eventually might happen, depending how the regulatory environment will impact the market.

Sanath Sudarsan, Analyst, Morgan Stanley
That's very helpful. Thank you very much.

Operator
Thank you. Our next question comes from the line of Nico Von Stackelberg from Liberum. Please go ahead. Your line is open.

Nico von Stackelberg, Analyst, Liberum
Hi, good morning gentlemen. Just my first question, please, on the illicit trade. Do you have any callouts by market on where the illicit trade is particularly severe? And then secondly, just trying to back into your free cash flow before the dividend. So could you give me a rough steer on know where you hope dividend growth to come out for the full year, or vice versa? Could you give me a rough indication of where you see free cash flow ending up before the dividend? Thank you.

Tadeu Marroco, Finance Director
Hi Nico. The duty-not-paid markets actually increased overall in 2019, and this is driven by markets like, for example, that has a big wave in the markets. Like for example, Ukraine, the likes of Russia and the likes of Pakistan, but we are saying that we are also seeing a decline in markets where, for us, we are overexposed like South Africa. Which is good news for the first time after many, many years we are seeing improvements in duty not paid, in South Africa in particular. As a consequence of that, we will be growing share, we will be growing NTO, we will be growing profits [ph 00:30:07] in South Africa, which we are very pleased with.
The other market, which is very relevant for BAT is Brazil, as you know. And Brazil duty not paid has been growing fast over the last few years. And given the new government and the new direction in terms of

enforcement, for the first time after many, many years we have seen the NGP growing in the low, low end, low single figures, with good expectations for the next year because the economy in Brazil starts to pick up again. So, overall, it is a story of increasing density [ph 00:30:44] but where we are most overexposed, it's a good story for us.

Nico von Stackelberg, Analyst, Liberum
Good, thank you..

Tadeu Marroco, Finance Director
In terms of the free cash flow, we set up the dividends so that would be one and a half of our dividends, around 4.8, 5 billion and you can have from that the numbers before dividends. And this is part of our strategy to de-lever the company. As you know, we're putting a lot of focus in terms of capex that I mentioned before, working capital, conversion, operating cash conversion rates we expect to be north of 95% moving forward. So these are the strengths of the balance sheet. As you know BAT is a very cash-generative company.
And the other thing is that we have a very good match between the currency breakdown of our debts and the current earnings today. Because the company is very different than what it used to be a few years ago after the acquisition of Reynolds because our exposure to emerging markets, financially, in terms of earnings is much less than they used to be, which puts some more strength in terms of our balance sheet.

Nico von Stackelberg, Analyst, Liberum
Thank you so much.

Operator
Thank you, and our final question comes from the line of Rey Wium of SBG Securities. Please go ahead, your line is open.

Rey Wium, Analyst, SBG Securities
Hi Tadeu and Mike. I'm just curious if you can just maybe elaborate a little bit more about the trends in Russia. First thing I just want to clarify, there's a 60 basis points reduction that you're talking up so make out [ph 00:32:29] should be around about 4 billion sticks hit in the second half. And then related to that, obviously it looks like tobacco heating products are making good growth in Europe as well as in Russia. So I just wanted to know if you can just share a bit on your plans specifically in Russia? If we look at the trend in Japan, obviously you know first move advantage is important. So do you have any capacity issues, or will you be able to fulfil the demand in that market so that's just- I think I want to get a feel on the Russian tobacco heating [ph 00:33:04] market. Thank you.

Tadeu Marroco, Finance Director

The Russians, as part of the cash exercise we discussed before, we have to make a full assessment of our supply chain in a number of key markets for us. And we saw an opportunity in Russia to reduce the level of investments that we have there. Because we had to close of one of the factories there in Russia happening during the year and as a consequence of that, we are just now advantaged [ph 00:33:37] by 4 billion. You're absolutely right, and that's reflected in the .6 one-off. This is generating more cash and helps with their cash generation in working capital that I have always said would be a priority for us to manage. We have done a bit here and there, but that's the most relevant market.

We are growing share in Russia. Everything is doing well in Russia. We have a strong portfolio of combustibles there. And THP, we are very pleased that we have seen consistently growth since January till now with the new launch and reaching the markets. And we haven't seen, for example, glo pro in the markets yet, we just launched glo nano there. And we reached more than 1% share in the key cities of the country, not just in Moscow. And the same is happening in reality in Ukraine and in Kazakhstan as well. So we are getting more and more traction in glo across Eastern Europe. There are no issues at all in terms of capacity for THP or either for everything that we are doing in terms of reviewing supply chain in Russia.

Rey Wium, Analyst, SBG Securities

OK, excellent.

Operator

Thank you. And as there are no further questions at this time, I'll head back to Tadeu to close the call.

Tadeu Marroco, Finance Director

Thank you very much. So in summary, delivering a strong financial performance in line with our guidance. We are very pleased with constant currency revenue operating profit in the upper half of our guidance range, high single-digit figure constant EPS growth. There's a 1.2% current tailwind for EPS at current rates this year. Our deleveraging on track. Combustible business performing very well, with strong pricing share gains. Our US business expects to deliver strong revenue and profit performance, good growth in new categories in the second half as we gain share and creating a stronger, simpler, more agile BAT, which is in line with the priorities that Jack set at the very early beginning of the year and our restructuring project is completely on track and we will be updating more on those points and more of that in February when you have our year end release.

Thank you very much for joining us today and we look forward to seeing you in February at our prelims.

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Note

The information contained in this transcript was correct as at the date of the Pre-Close Trading Update Conference Call and Audio Webcast on 27 November 2019.

Forward looking statements

This transcript 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 transcript contains certain forward-looking statements, including “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 our year-end results as well as, 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,” “target” and similar expressions.

All such forward-looking statements involve estimates and assumptions that are subject to risks, uncertainties and other factors. It is believed that the expectations reflected in this transcript 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 impact of competition from illicit trade; the impact of adverse domestic or international legislation and regulation; changes in domestic or international tax laws and rates; adverse litigation and dispute outcomes and the effect of such outcomes on the Group’s financial condition; changes or differences in domestic or international economic or political conditions; adverse decisions by domestic or international regulatory bodies; the impact of market size reduction and consumer down-trading; translational and transactional foreign exchange rate exposure; the impact of serious injury, illness or death in the workplace; the ability to maintain credit ratings and to fund the business under the current capital structure; the inability to develop, commercialise and roll-out Potentially Reduced-Risk Products; and changes in the market position, businesses, financial condition, results of operations or prospects of the Group.

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No statement in this communication is intended to be a profit forecast and no statement in this communication should be interpreted to mean that earnings per share of BAT for the current or future financial years would necessarily match or exceed the historical published earnings per share of BAT.

Additional information concerning these and other factors can be found in the Company’s filings with the U.S. Securities and Exchange Commission (“SEC”), including the Annual Report on Form 20-F filed on 15 March 2019 and Current Reports on Form 6-K, which may be obtained free of charge at the SEC’s website, http://www.sec.gov, and the Company’s Annual Reports, which may be obtained free of charge from the British American Tobacco website www.bat.com.