

### INNOVATION TRANSFORMING PORTFOLIO

We substantially enhanced our capabilities early in the year with the acquisition of the UK NGP innovation business Nerudia. The exciting work we are doing on innovation is transforming our portfolio, ensuring we are able to provide smokers with a wide range of high quality products.

This includes tobacco-free snus, recently launched in Sweden, and a high quality heated tobacco product called Pulze, which will be launched in 2019.

A regular drumbeat of innovations such as these is essential for accelerating smoker conversion rates, building brand loyalty and ensuring smokers stay in the NGP category.

### NGP SUCCESS DRIVING REPORTING CHANGE

Our focus on NGP and the growth opportunity this provides across all our markets means that our current segmental descriptors of Growth and Returns are no longer applicable.

As a result, our segmental reporting for our tobacco and NGP businesses for the year ending 30 September 2019 will be changed to: Europe, Americas and Africa, Asia & Australasia.

These three regions will include all tobacco and NGP sales in their respective geographies, reflecting the new way we run the business.

At the same time, blu will be reclassified as a Growth Brand, reinforcing our global ambitions for the brand, and all NGP revenue and profit, currently reported in Growth Markets, will be included within the countries and segments where the sales occur. We will also separately disclose our NGP revenue.

### OXFORD CANNABINOID TECHNOLOGIES

We continue to explore other avenues of growth and in June announced that we had taken an equity stake in Oxford Cannabinoid Technologies (OCT).

OCT is a biopharmaceutical company focused on researching, developing, and licensing cannabinoid-based compounds and therapies. OCT's activities are licensed for operation by the UK Home Office.

We believe cannabinoid products have significant growth potential. Our investment enables us to support OCT's important research while building a deeper understanding of the cannabis market.

### GROWTH BRANDS UP AND GAINS IN PRIORITY MARKETS

While driving NGP growth we have also concentrated on our tobacco performance. This is fundamental to our success as tobacco will remain an integral part of our business for many years to come and generates the funds to invest in the business.

We focus on the performance of our Growth Brands and priority markets. Our Market Repeatable Model provides a structured framework for driving quality tobacco growth and is consistently applied across our footprint. The way the model works is explained on page 5.

Tobacco highlights included excellent results from our Growth Brands, which continued to outperform the market with volume, share and net revenue growth.

Growth and Specialist Brands now account for 67 per cent of the Group's tobacco net revenue, four per cent higher than last year.

In Growth Markets, we achieved share gains in all of our priority markets except for the USA, although our share trajectory continued to improve and our fourth quarter share was up year-on-year.

In Returns Markets, we grew share in the UK and delivered strong financial results in Australia and Germany.

### OUR NGP PORTFOLIO

Our NGP portfolio is built around our pioneering vapour brand, blu. Vapour products do not contain tobacco and therefore represent a less harmful alternative to smoking.



### HEATED TOBACCO

As the name implies, heated tobacco products heat a portion or rod of tobacco. This releases nicotine and other tobacco emissions at substantially lower levels than cigarettes.

We have developed an outstanding product in Pulze, which we look forward to launching in 2019.

### TOBACCO-FREE SNUS

We have a strong position in snus, an oral tobacco product with a long history of use in Scandinavian countries.

This year we launched a tobacco-free version of our Skruf brand in Sweden and initial consumer feedback has been extremely positive.



## VAPOUR

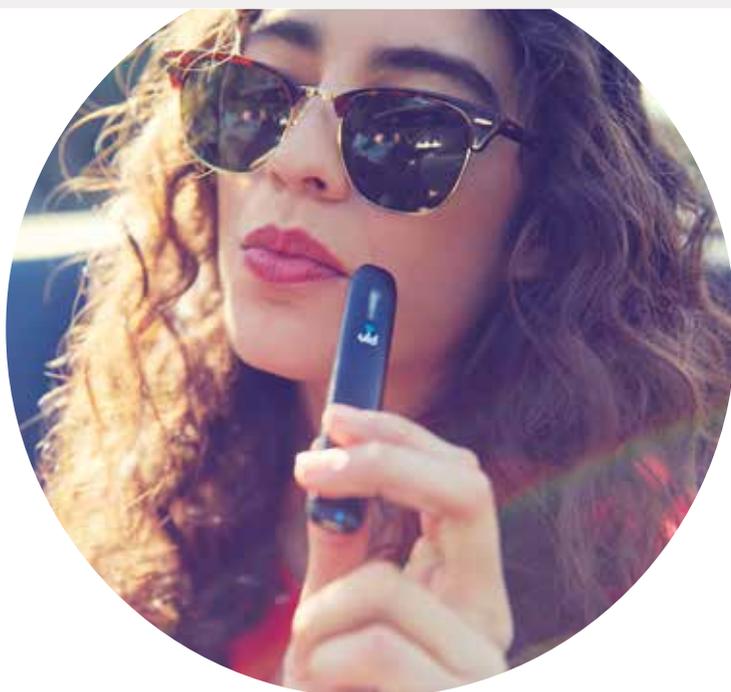
During the year we expanded the blu franchise with three exciting new launches: *myblu*, *myblu Intense* and *blu ACE*.

*myblu* is a pod format that delivers an exceptional vaping experience. Smokers and vapers appreciate the device's ergonomic design and rapid charging time.

*myblu Intense* is a nicotine salt product that more closely replicates the experience and satisfaction of smoking a cigarette. Intense is part of a broad range of different nicotine levels offered by blu, including a nicotine-free variant.

*blu ACE* is an open system product and the most powerful device in our portfolio. It is aimed at smokers and vapers who want to tailor their vaping experience yet retain the look and feel of a minimalist design with intuitive controls.

Flavours are a key aspect of the vaping experience and play an important role in converting smokers to vapour and keeping them in the category. Both *myblu* and *blu ACE* provide smokers with a wide range of flavours in multiple nicotine strengths, including nicotine-free offerings.



**blu** | SOMETHING BETTER.

