



BAT Leaf Supply Chain

JP Morgan Global Tobacco
Conference 29th June





Agenda



- BAT Tobacco Leaf Supply Chain
- Responsible Tobacco Leaf Production
 - Good Agricultural Practices
 - Afforestation Programmes
 - Bio Diversity Partnerships
 - Eliminating Child Labour Tobacco Production
 - Social Responsibility Tobacco Production
- Future Tobacco Leaf Business Environment
 - Tobacco Leaf Supply Chain Consolidation
 - Emerging BAT Tobacco Leaf Sources
 - Global Leaf Supply Chain
- BAT Tobacco Leaf Supply Chain Strategy
- Conclusions.

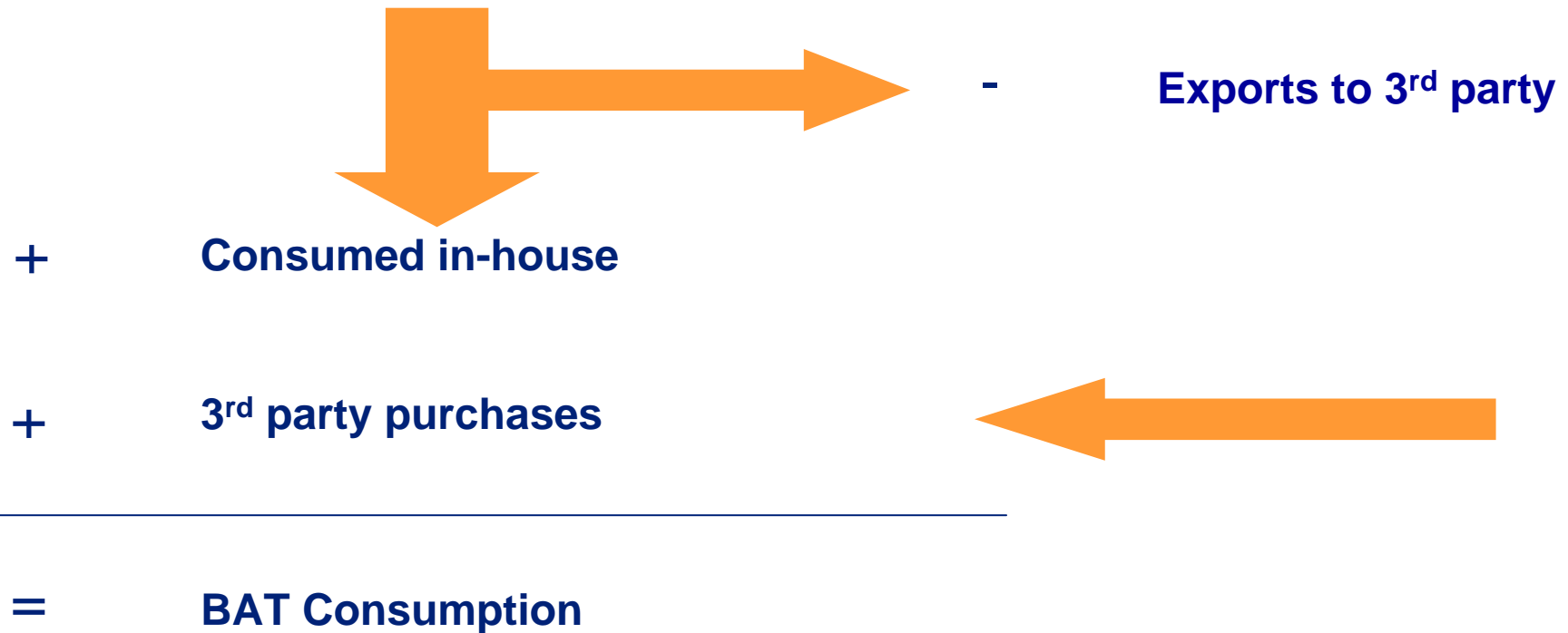
BAT Tobacco Leaf Supply Chain



BAT Tobacco Leaf Supply Chain



Vertically Integrated Leaf Operations



- 24 Leaf operations
- 22 GLTs in 19 countries

Employees

Permanent	3,300
Seasonal	18,600
Farmers	+250,000

Responsible Tobacco Leaf Production



Good Agricultural Practices



- Good Agricultural Practices aim to ensure sustainable and economically viable production of usable tobacco.

'Agricultural practices which produce a quality tobacco crop while protecting, sustaining or enhancing the environment with regard to soil, water, air, animal and plant life'.



Afforestation Programmes



- Wood is consumed either for curing fuel, or for construction of curing barns during the production of tobacco.
- Continual Drive For Self-Sufficiency –
 - Since the 1970s we have been responsible for the planting of 281,800ha of managed woodlands (588 million trees established)
 - 74% of wood requirements from BAT sponsored sources
 - Education Programmes are in place to ensure that farming communities avoid depleting native forest, for use in tobacco processing or other activities.
 - Efficiency - A process of continuous improvement is in place to ensure that the amount of wood required to produce leaf is reduced in line with improvements in efficiency of the curing process.



Afforestation Programmes

- Commercial plantations for wood fuel and barn construction
- Conservation of waterways





Bio Diversity Partnerships



- BAT Biodiversity partnership
 - Earthwatch Institute (Europe)
 - Fauna & Flora International
 - Royal Botanical Gardens Kew
 - Tropical Biology association
- Activities carried out jointly with all partners including local people in the communities which BAT operates.



Eliminating Child Labour in Tobacco Production



- We have helped establish the Elimination of Child Labour in Tobacco Production (ECLT) Foundation
 - We are committed to the principles of protecting children from child labour exploitation, believing their development - as well as that of their communities and countries - is best served through education, not child labour. We do not employ children in our operations.
 - The IUF, ITGA and British American Tobacco are the founding members of the Foundation
 - In addition to British American Tobacco, members now include Altadis, Philip Morris, Japan Tobacco, Scandinavian Tobacco, Imperial Tobacco, Gallaher Group, and the worlds leading tobacco dealers Universal Leaf Tobacco Co., Standard Commercial Corporation, and DIMON Incorporated.



Social Responsibility Tobacco Production Programme



- *Social Responsibility in Tobacco Production* programme includes:
 - Good Agricultural Practices
 - Environment, health and safety standards
 - Socio Economic Factors.
- Over the last five years we have worked to extend the approach embodied in our *Social Responsibility in Tobacco Production programme* to all our leaf suppliers, to reach those from whom we buy leaf on the open market. We have also worked to encourage other manufacturers to adopt a similar approach. This initiative is gaining considerable support

Future Tobacco Leaf Business Environment



Tobacco Leaf Supply Chain Consolidation



- As of May 2005 only two global Leaf supply chain companies remain Universal and Alliance One.
- Merger of Dimon Incorporated and Standard Commercial Corporation resulted in the formation of Alliance One.
- Local and Regional Leaf companies emerging in the market place.
- 65% of BAT global tobacco Leaf requirements are sourced from our own vertically integrated operations, which also play a role as the third global leaf export supplier.



Emerging BAT Tobacco Leaf Sources



- As production declines in North America and Europe the future focus is on sources in South America, Africa and Asia
- BAT have key operations in the following locations:
 - South America - Brazil
 - Africa - Zimbabwe, Uganda
 - Asia - Indonesia, India*
- These operations allow BAT access to a diverse range of global tobacco Leaf production.
- The Leaf footprint has been developed optimising supply chain costs which include costs of production, freight and duty and cognisant of product quality.

* India via associate company



Leaf Supply Chain



- A long and capital expensive supply chain with opportunities to leverage:
 - Annual Global Tobacco Production ~ 12 months inventory
 - Therefore 12 months inventory ~£7 Billion
 - Releasing 1 month of inventory via improved efficiencies would equal a £580 million reduction in working capital.
- This opportunity will be enabled by:
 - Standardisation of Leaf SKU's
 - Improved visibility across the supply chain
 - Improved forecasting accuracy
 - Resulting in reduced cycle and safety stocks



BAT Leaf Strategy





Conclusions



- Managing Leaf sourcing profile is key to delivering the correct quality of Leaf at the most competitive price
- Responsible tobacco production is key to provide a sustainable future for the global Leaf business.
- Further consolidation in the Leaf supply business will require effective management
- New world Leaf sources will play an increasing role in the future of the global Leaf industry
- Releasing value from the Leaf Supply chain to the rest of the business is a key initiative under development.