



# Asia Pacific Region Overview

March 2010

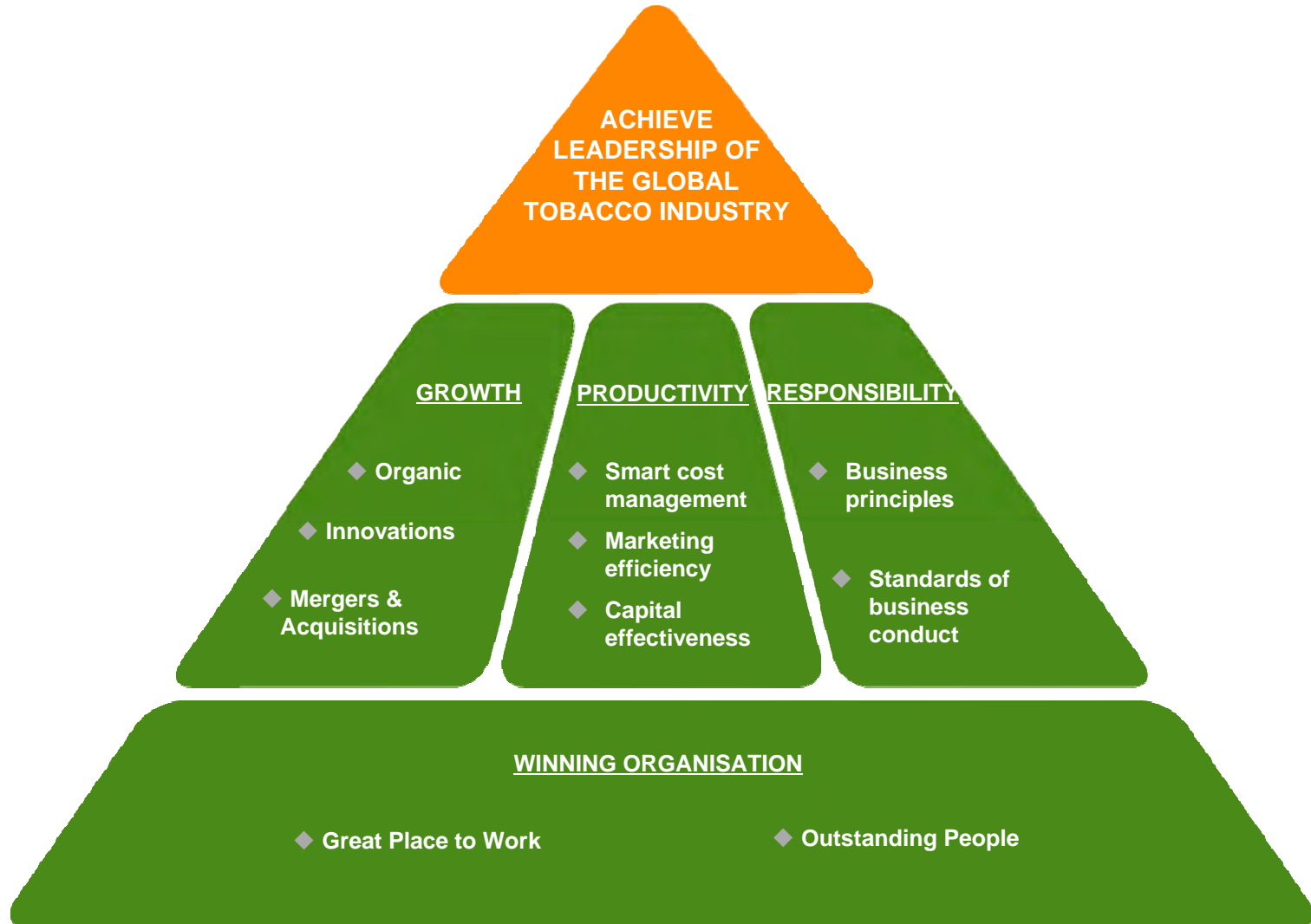


# Agenda



- Review of Group Strategy
- BAT in Asia Pacific
- Outlook
- Summary

# Group Strategy



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# BAT's Asia Pacific Region



## BAT locations

- BAT office and factory
- BAT office only

## Our areas and markets

- South Korea
- Malaysia – Malaysia, Brunei, Singapore domestic
- Greater China Area (GCA) – China, Hong Kong, Macau, Taiwan
- Australasia Area – Australia, New Zealand, PNG, Solomon Islands, Fiji, Western Samoa
- South Asia Area (SAA) – Pakistan, Sri Lanka, Maldives, Bangladesh, Afghanistan
- Japan
- Vietnam Cluster – Vietnam, Cambodia, Export Markets
- Indonesia



Source: 2008 Regional Fact Sheets

# We compete in a heavily regulated Region

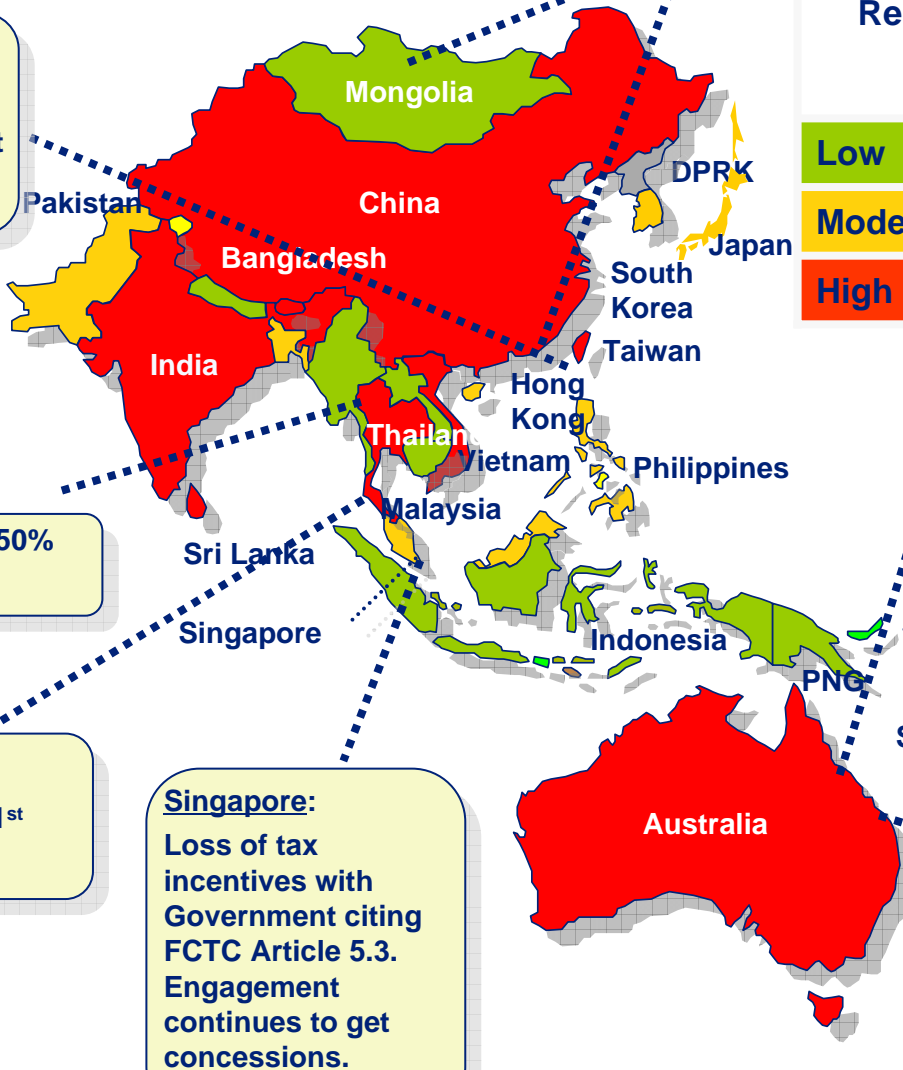


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HK/Macau and Mongolia:  
Ad hoc excise increases

Taiwan:  
Guidance expected on permitted words and phrases on pack e.g. product and brand story.

Regulation Level	% UOP	% Vol
Low	5%	10%
Moderate	46%	54%
High	49%	36%



Thailand: GHWs greater than 50% front and back of pack.

Australia:  
Product display ban in 4 states starting January 2010 and talk but no action yet by Government on plain packaging.

Malaysia:  
Minimum pricing from 1<sup>st</sup> January 2010.

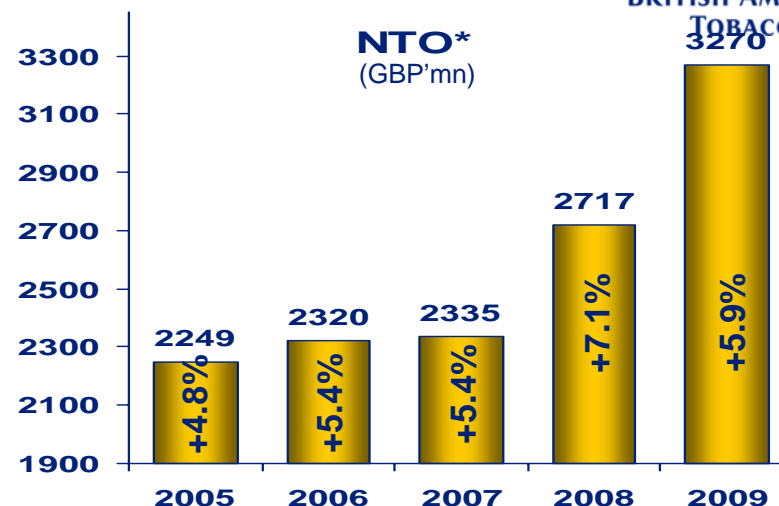
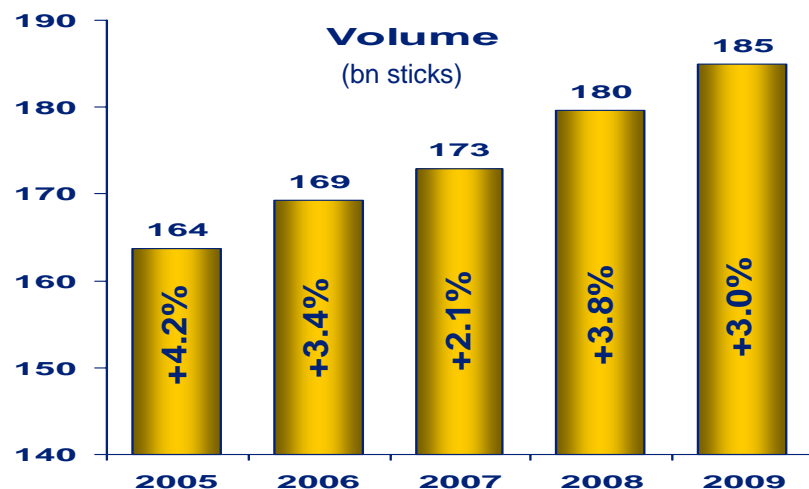
Singapore:  
Loss of tax incentives with Government citing FCTC Article 5.3. Engagement continues to get concessions.

Australia and NZ:  
Public disclosure of meetings with Government and tobacco industry.

# Impressive result in Asia Pacific over last 5 years (incl Japan & Bentoel)



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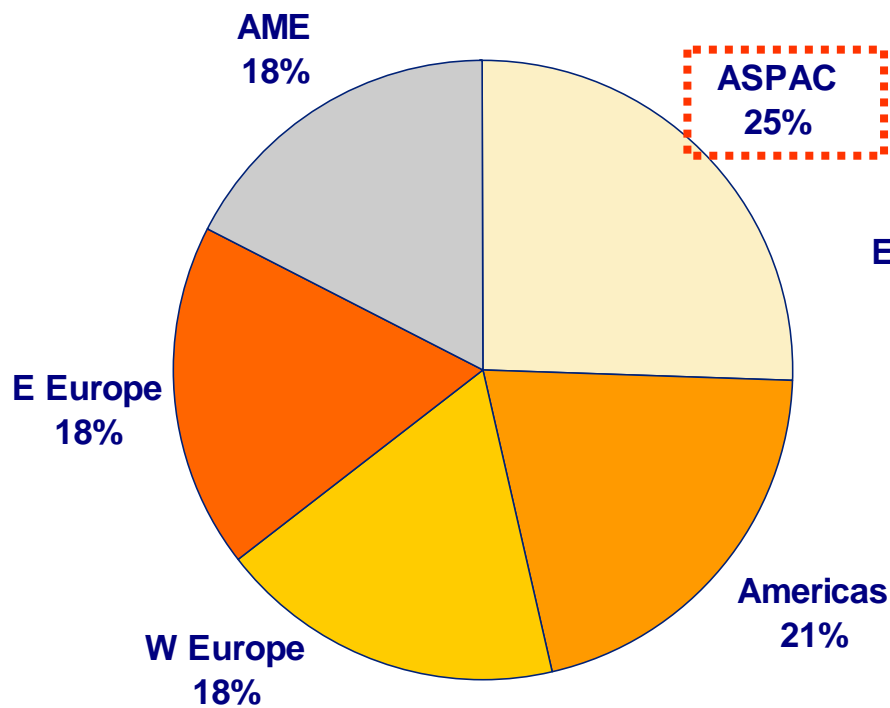
**CAGR (05-09): Volume (+3.1%), NTO (+10.0%), UOP (+18.0%)**

1. **Source:** BAT Annual Reports for historical results plus internal report for Japan from 2005 to 2007
2. Financial growth rates are computed based on constant exchange rates for like-for-like comparisons
3. Japan is included in all the years. Half year results of Bentoel in 2009 only.

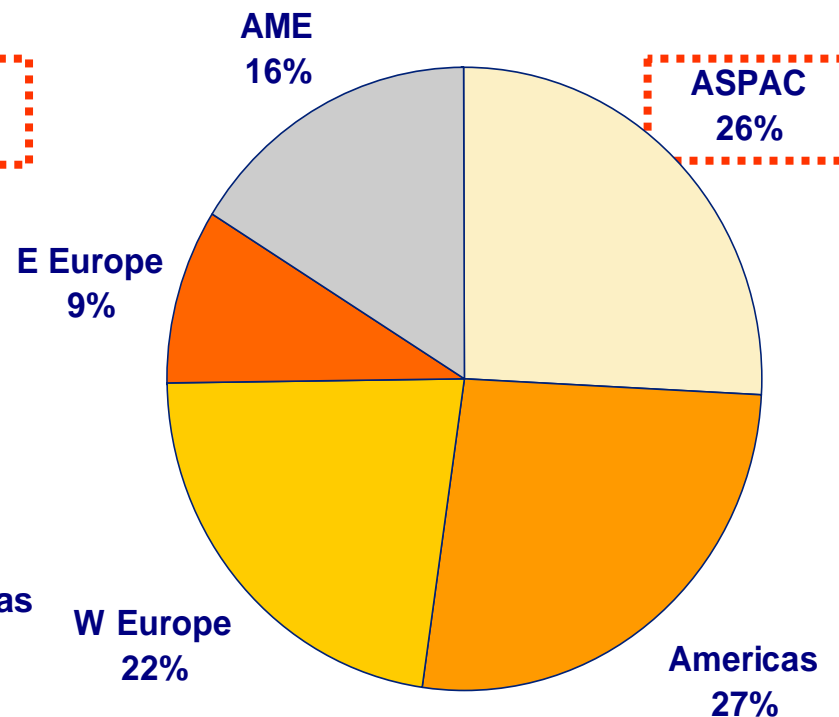
# Asia Pacific is a major contributor to the Group



## Volume (2009)



## Profits (2009)



Source: BAT 2009 Annual Report



## Summary: BAT in Asia Pacific

- Sizeable, well-balanced presence in the Region
- Substantial footprint: factories in 14 end-markets
- Successful results despite operating in heavily regulated markets
- Strong volume and profit contributor to the Group
- Intimate market knowledge and decades of experience in the Region

**Strong platform to build upon**

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# Asia Pacific Region: Huge population, growing economies...

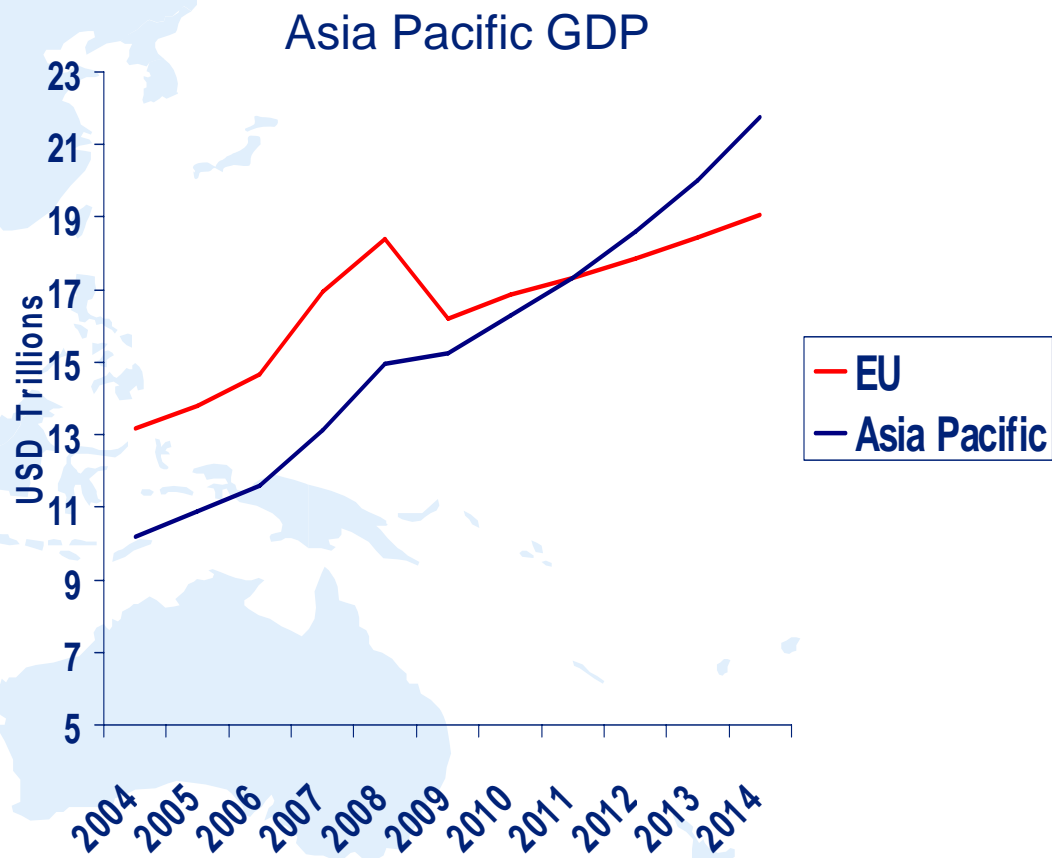


56% of the world's population

Larger economy than the EU by 2011

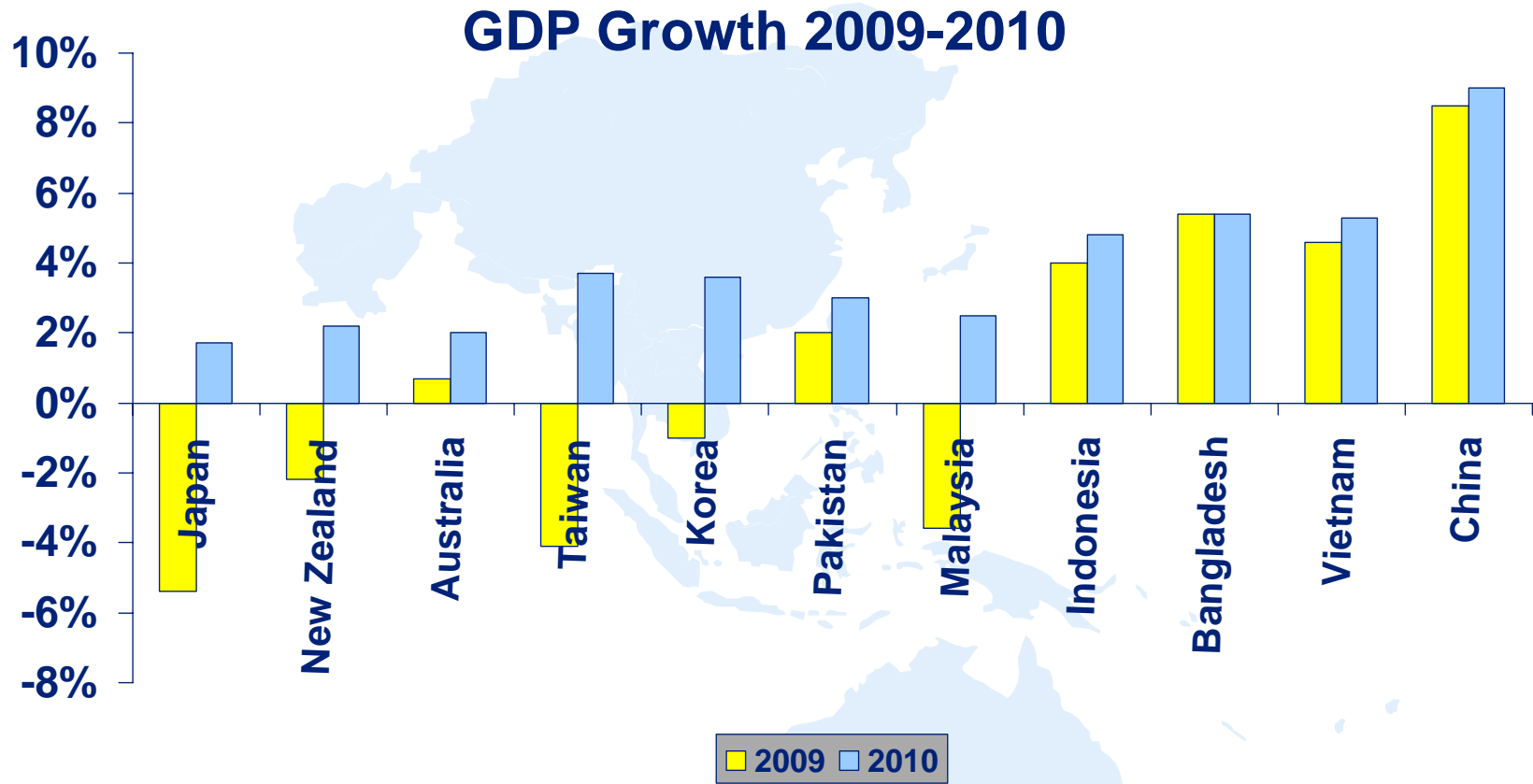
	Exc China	Inc China
Population	~ 2.4 bn	~ 3.8 bn
% of Global Pop.	~36 %	~ 56%

Source IMF, October 2009



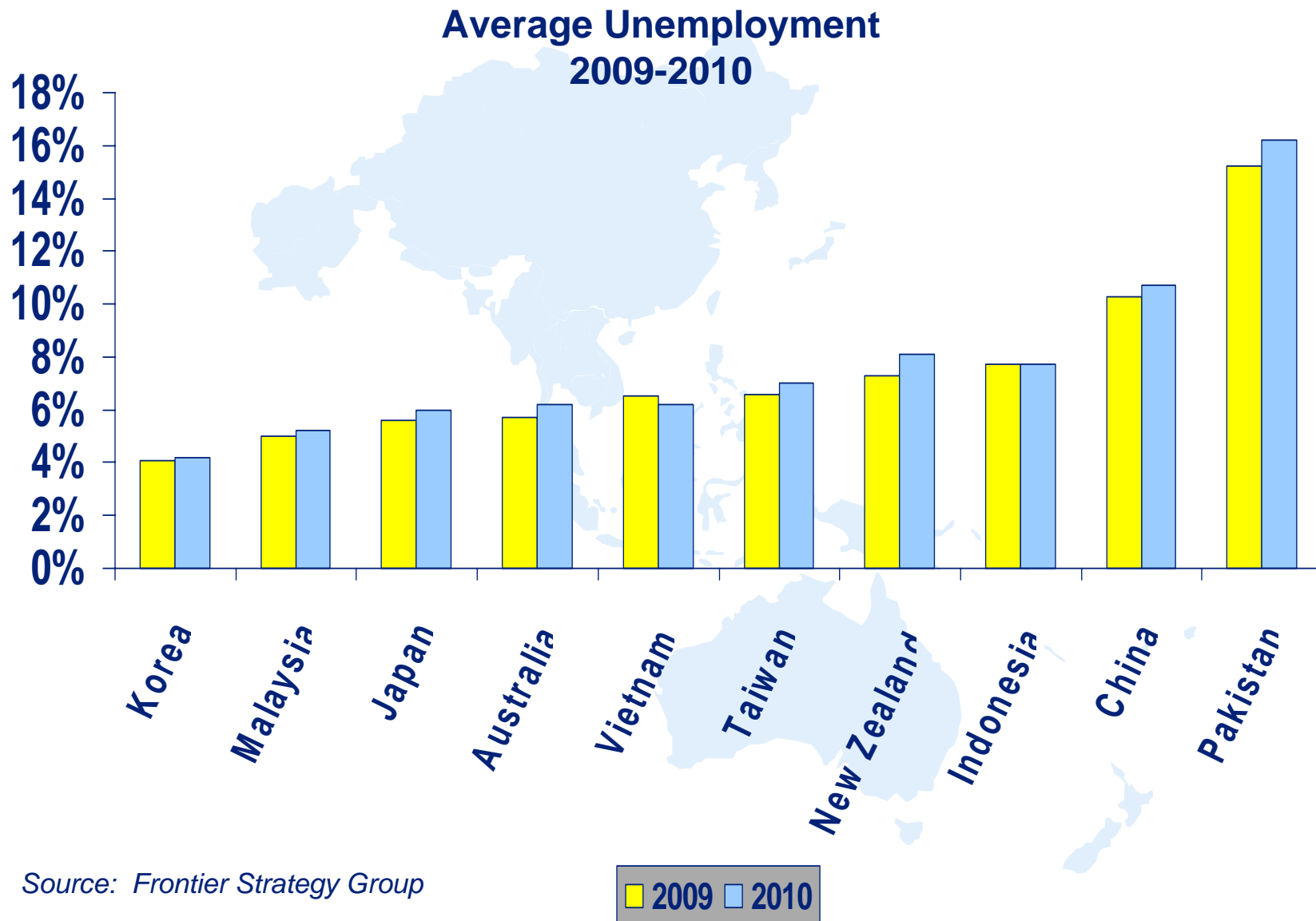
Source: IMF, October 2009

# GDP recovery expected in 2010



**GDP growth returns in 2010 (from a lower base)**

# Unemployment expected to improve, but marginally; consumer spending patterns likely to lag

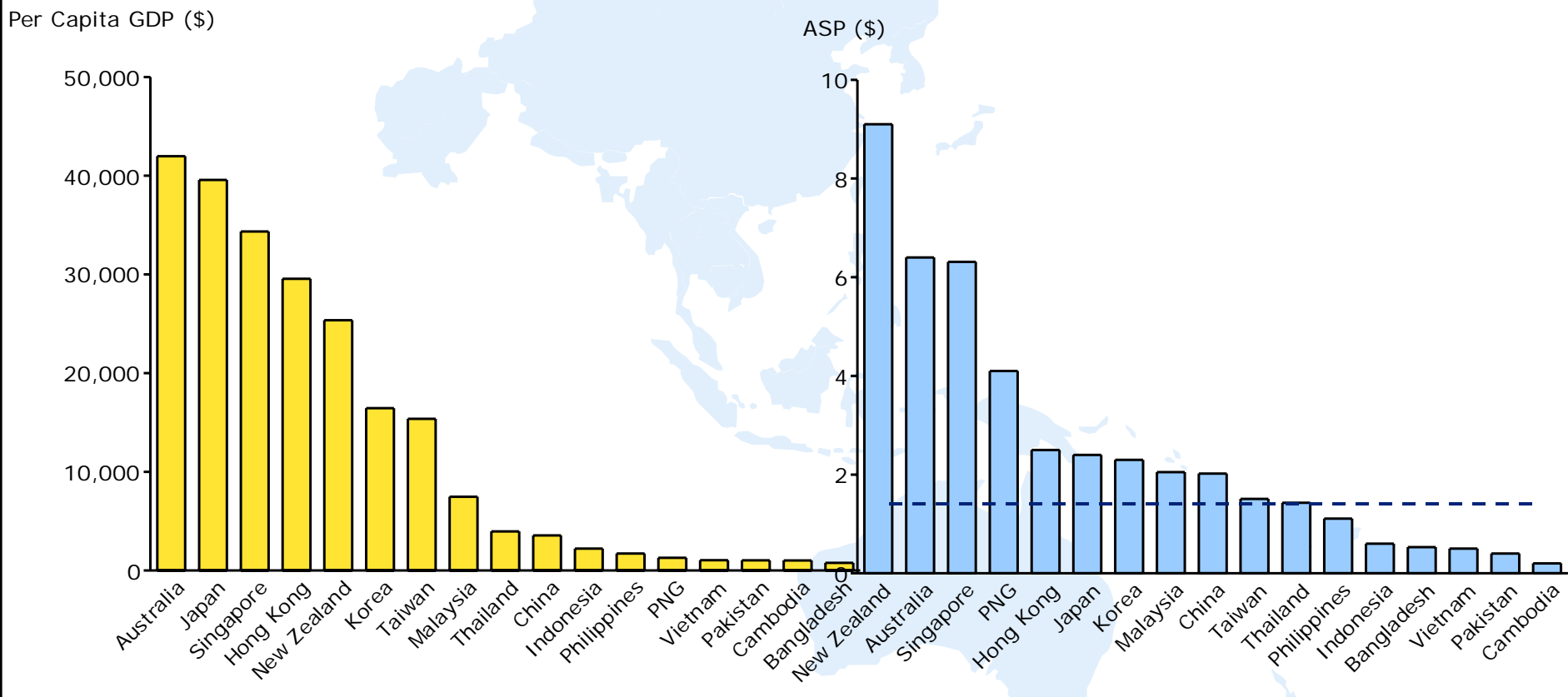


# Vast wealth disparities across the region, reflected in pricing levels



**Per capita GDP**

**ASP per pack (20s)**



**Significant pricing opportunities still available in the Region**

# Recent pricing activities



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TOBACCO

	1st Half 2009	2nd Half 2009	2010 Year-to-date
Australia	●		●
New Zealand			
South Pacific			●
Malaysia	●	●	
Singapore			
Japan			
South Korea			
Pakistan	●		●
Bangladesh	●		
Sri Lanka	●	●	
Vietnam	●		
Cambodia			
Mongolia			
Taiwan	●		
Hong Kong/Macau			
China			
Indonesia			
GTR	●		

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## In Summary...

- Major presence in Asia Pacific
- Significant growth driver for the Group
- Consistently deliver impressive results despite ongoing challenges
- Strong platform to deliver growth
- Asia Pacific will continue to be a key area of focus
  - Growing population
  - Economic recovery
  - Pricing opportunities

# YOKOSO!!



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TOBACCO  
JAPAN



CITI INVESTOR VISIT, TOKYO, MARCH 9 2010



# AGENDA



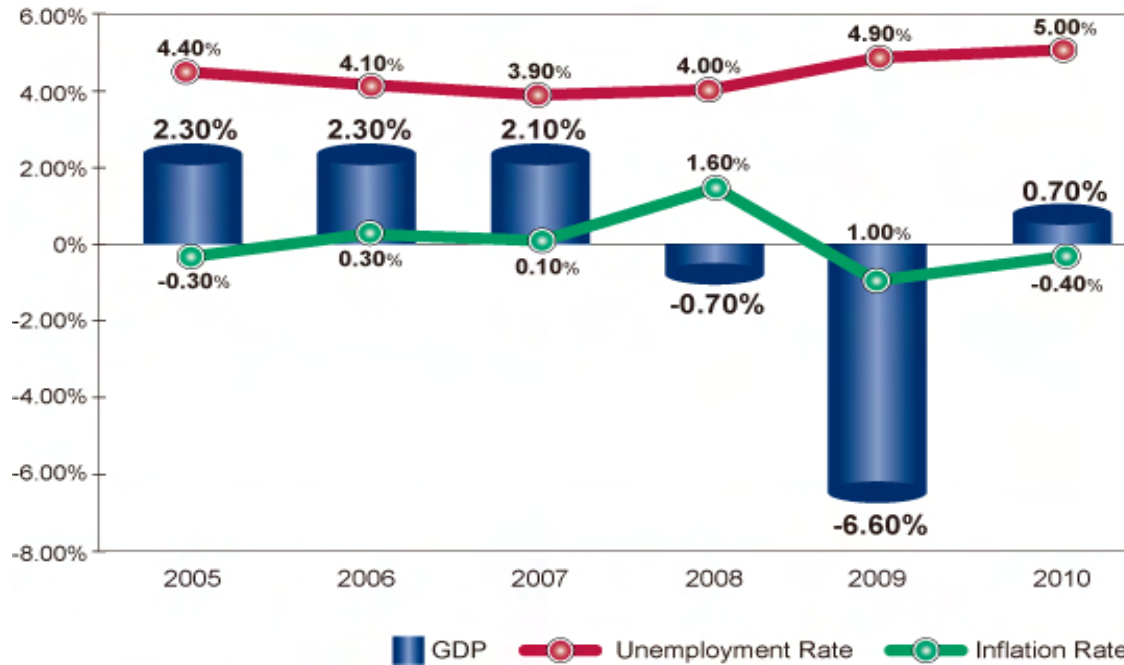
- External Environment
- Impact Of Recent Political Change on Tobacco
- Tobacco Industry
  - Key Trends
  - Key Opportunities
- BAT Performance
- BAT Vision and Strategy
  - Leading Growth
  - Consumer, Brands, Innovation
  - Winning Organisation



# The External Environment

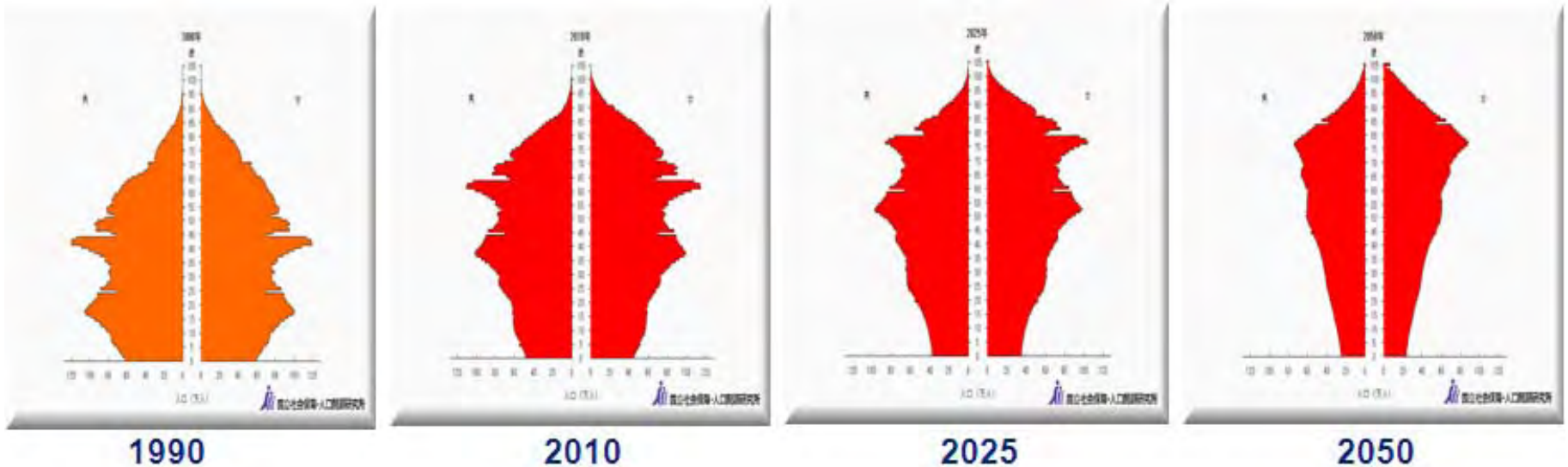


# JAPAN ECONOMY: Long uncertain road



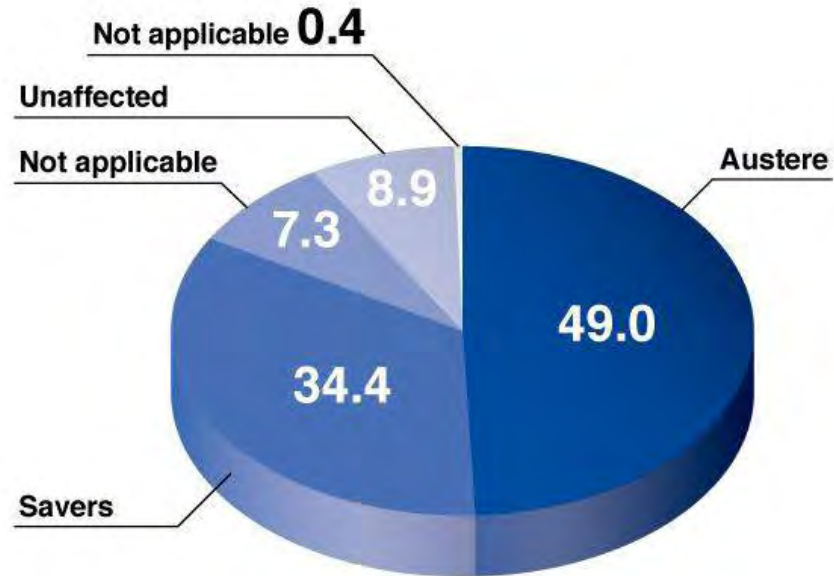
- Experienced sharpest recession in 2008-09 from global financial crisis
  - Major contraction in 2009
  - GDP recovery led by government stimulus and net export recovery (inventories)
- Public debt approaching 200% of GDP

# AGEING DECLINING POPULATION



- Population at its peak (127mn), set to decline sharply after 2013
- Population will be 90 mn in 2050
- Ageing Population
  - Pressure on labour, health, pension
- Immigration Policy

# CONSUMER CONFIDENCE: NEW LOW



- Uncertain future – Unemployment, wages, pension
- Extremely price and budget conscious behaviour especially families and older shoppers
- Luxury goods flat/declining
- Consumer spending declining



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TOBACCO  
JAPAN

Tobacco



# MINISTRY OF FINANCE is a dominant influence in the tobacco industry



- Tobacco Business Law (1985)
  - Maintain stable fiscal revenues
  - Fostering the sound development of the tobacco industry
  - Production and purchase of domestically produced leaf tobacco
  - Abolition of Tobacco Monopoly
- Owns 50.1% of JT

The Law vests the Ministry of Finance (MoF) with power to regulate production and sale of domestic leaf, sale of manufactured tobacco, wholesale and retail licenses, advertising and retail pricing.



# REGULATORY ENVIRONMENT



- Regulation is benign by international standards
  - June 2004 ratification of the FCTC:
  - OOH ceased & press restricted in Sept 2004 (TV/radio already banned)
  - Larger (30%) on-pack rotating health warnings implemented July 2005
- Freedom to communicate and consumer contact relatively high
- All tobacco retail outlets are government licensed
- Legal age of 20 (to procure cigarettes and alcohol)



# REGULATORY ENVIRONMENT

- Societal courtesy and manners are key drivers rather than health
- PPS and Juvenile smoking are key areas of societal, governmental focus



# REGULATORY: VENDING

- Roll out of Age Verification in Vending Machines in July 2008
  - Y80bn (approx. \$800mn) industry investment
  - Taspo card adoption lower than expected (37.1%: as of Jan '10)
  - Significant changes to buying habits and consumption



# REGULATORY: PRICING



- Cigarette Prices very low by first world standards
  - Mainstream ~ \$3.00
  - Premium ~ \$3.20
- Cigarette prices are fixed, promotions closely controlled:
  - De facto price control by the Ministry of Finance
  - Requires pre-approval for any changes
  - No consumer discounting is permitted
- Only 4 tax increases in 10 years
- First MPI in July 2006 after 20 years (AVVM)
- Selective price increase in 2007





# NEW GOVERNMENT AFTER 50 YEARS



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TOBACCO  
JAPAN



# DPJ AGENDA : FROM BRIDGES TO PEOPLE



- Independence from Bureaucracy
- The end of wasteful spending
- Social agenda
  - Childrearing and Education
  - Pensions and Medical care
  - Employment and the Economy
- Very healthy aging society
- Non fossil fuel energy - clean energy
- Asia focus (along with the US)

# IMPLICATION FOR TOBACCO INDUSTRY



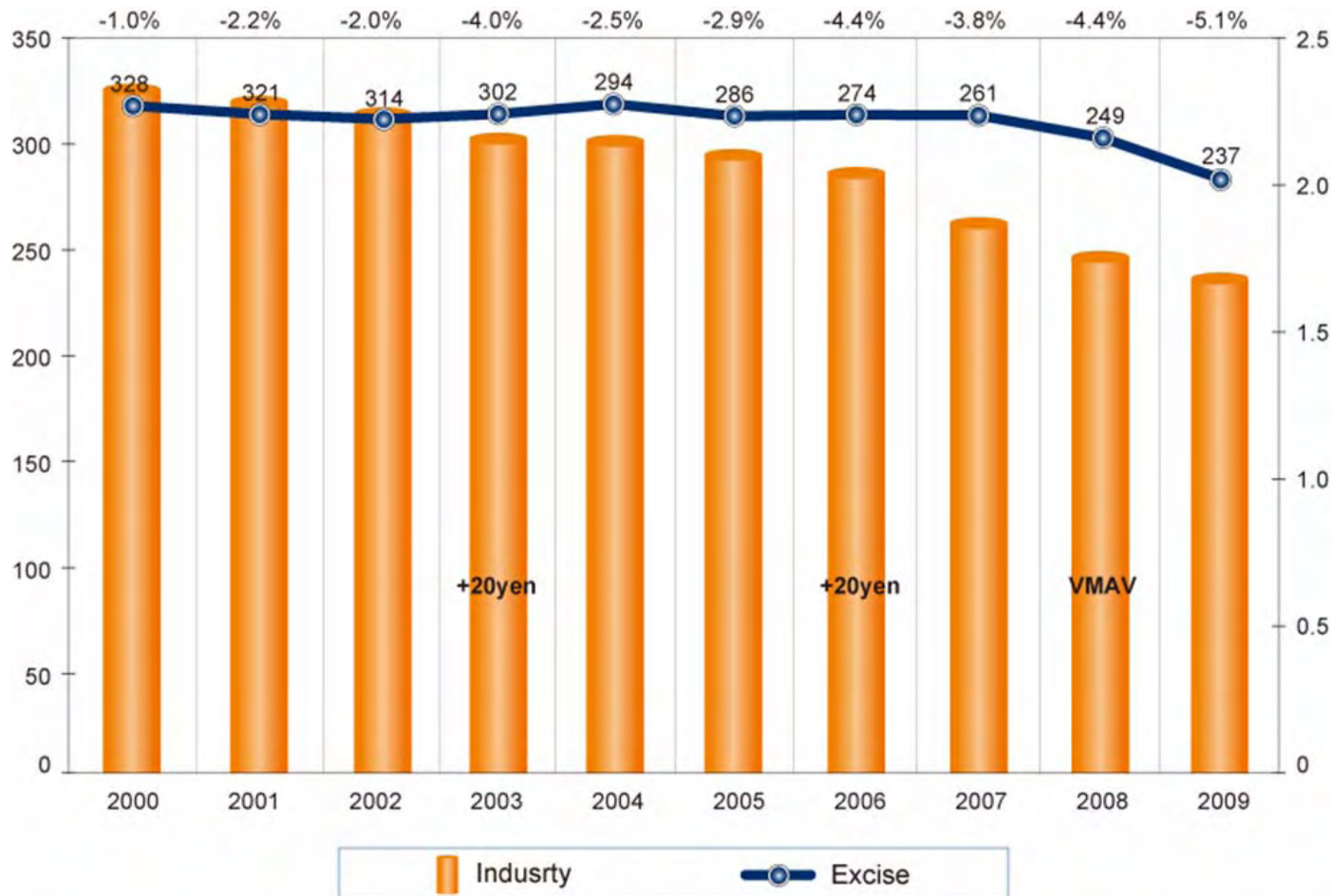
- Fork in the road
  - Pricing freedom is key
  - TIOJ concern with big excise increases
- Industry profit pool can grow significantly
  - Smaller more profitable industry
  - Bigger prize .. greater competition
- Japan will continue to be a major market globally





# Tobacco Market And BAT Performance

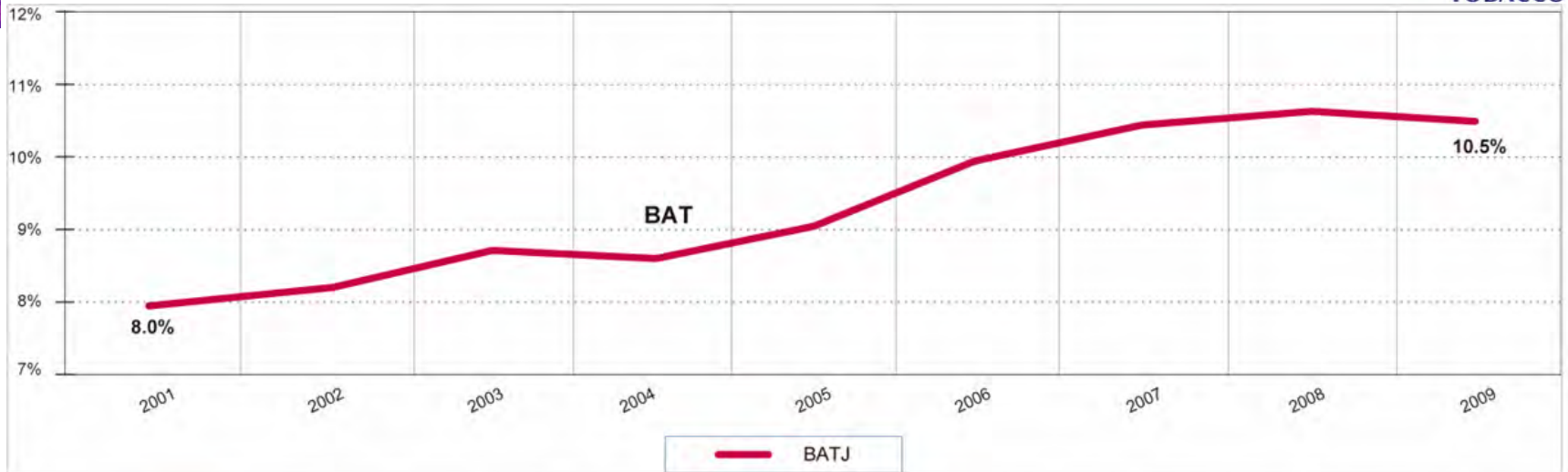
# INDUSTRY AND EXCISE TREND



		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	CAGR (05-09)
Incidence	Male	53.5	52.0	49.1	48.3	46.9	45.8	41.3	40.2	39.5	38.9	-4.0%
	Female	13.7	14.7	14.0	13.6	13.2	13.8	12.4	12.7	12.9	11.9	-3.6%
ADC	Male	24.2	23.9	23.3	22.9	22.4	22.3	22.3	21.6	21.7	21.3	-1.1%
	Female	17.3	17.2	16.7	17.2	16.5	16.0	16.3	15.9	16.4	15.9	-0.2%



# 3 KEY PLAYERS SOM TREND



Data Source: BATJ Estimate



# BAT A CONSISTENT SUPERIOR PERFORMER



	BAT			PM			JT		
	2005	2009	CAGR	2005	2009	CAGR	2005	2009	CAGR

Volume Performance vs. Industry

Index	100	103	1%	▲	100	99	(0%)	▼	100	100	(0%)	◀▶
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SCM

	9.3%	10.5%	0.3%	▲	24.7%	24.0%	(0.2%)	▼	65.6%	65.0%	(0.1%)	▼
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Net Turnover

Index	100	103	1%	▲
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Operating Profit

Index	100	144	9%	▲
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- BAT shows resilience, outperforming the industry
- Focused strategy delivering superior performance



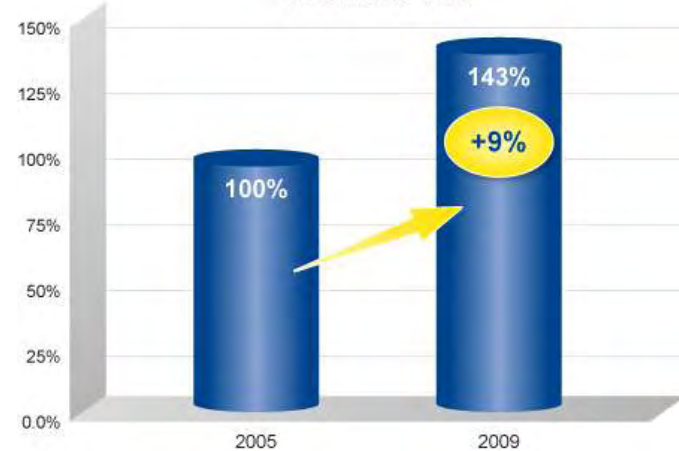
# SOLID PERFORMANCE FOR BAT ... despite challenging business environment



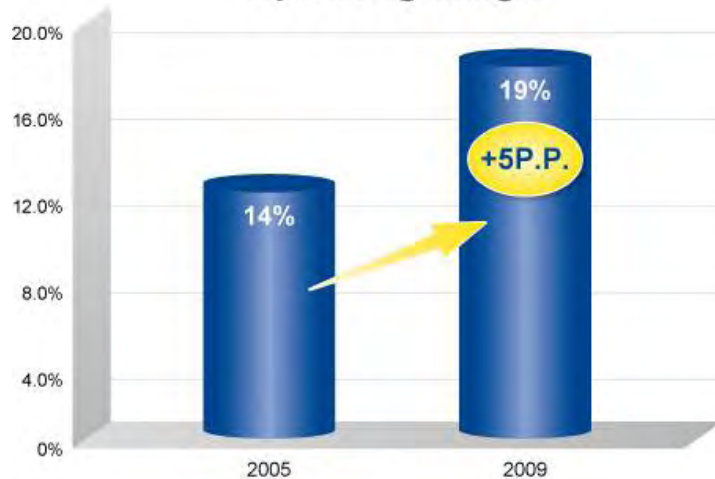
### Market Share



### Operating Profit Index 2005=100



### Operating Margin



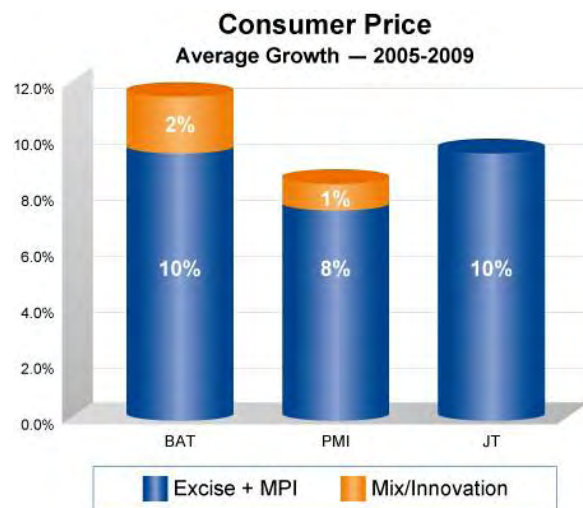
- Consumer led innovation (e.g. thread, capsule)
- Cost driven manufacturer's price increase
- Productivity savings

Data Source: BATJ Estimate





# MIX AND INNOVATION DRIVE MARGINS



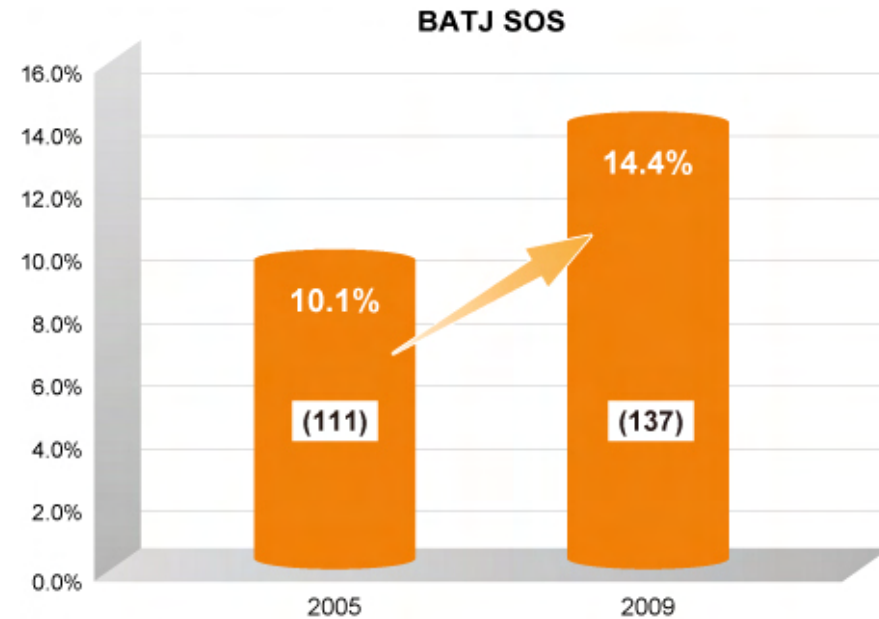
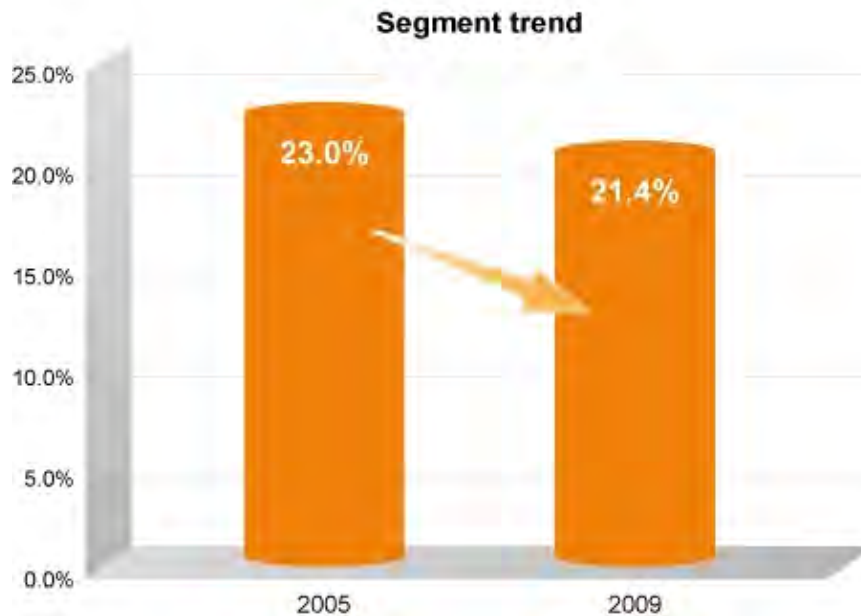
- Focus on accelerating premium growth has been key to mitigate lack of price freedom
- Breakthrough innovation offers opportunity to capture premium margins
- Kool Boost (capsule) priced at ¥10 premium to core range leveraged BAT average price

Data Source: BATJ Estimate



# Focusing and Winning in key Segments

# STRONG PERFORMANCE IN ASU30



( ) indicates index vs. total share

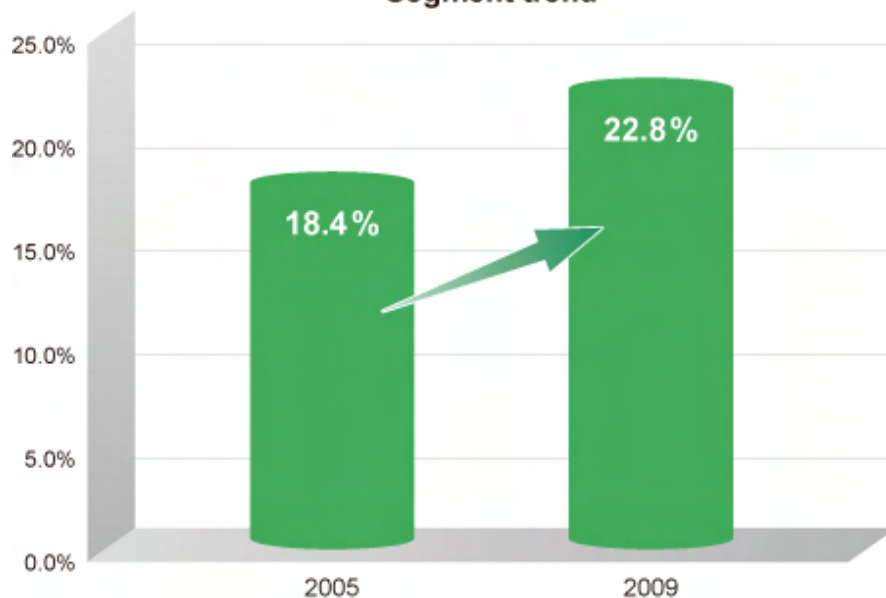
Size increase vs. 2005	CAGR ( '05 – '09)
-1.6ppt	-1.8%



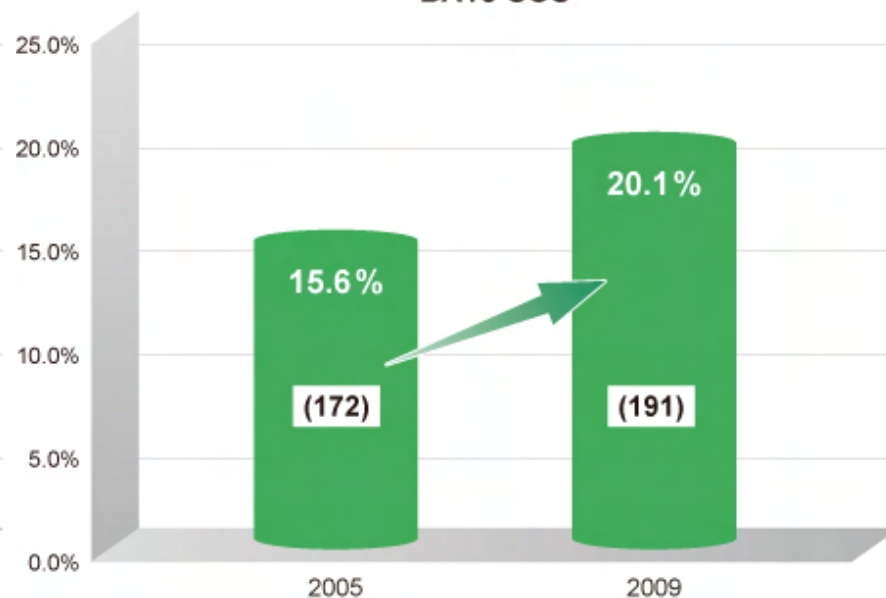
# BAT OVER-PERFORMING IN MENTHOL



Segment trend



BATJ SOS



( ) indicates index vs. total share

Size increase vs. 2005	CAGR ('05 – '09)
+4.4ppt	+5.6%

Data Source: BATJ Estimate



# CONTINUE TO DRIVE MENTHOL THROUGH INNOVATIONS

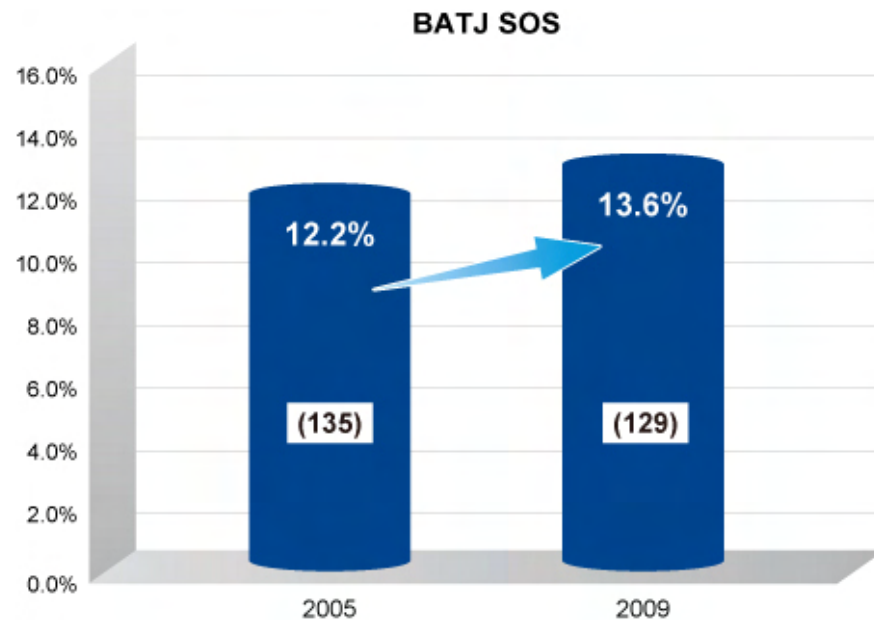
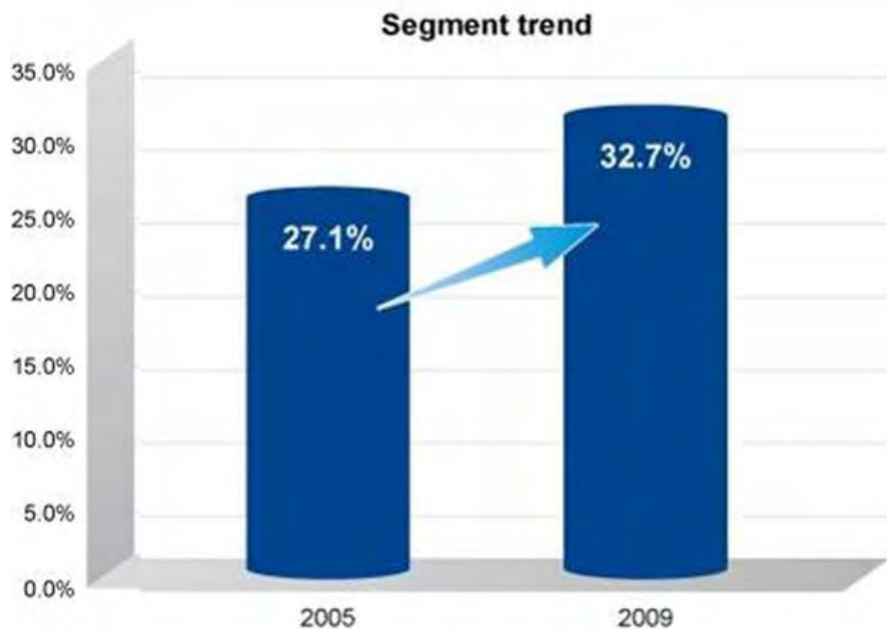


- Strong portfolio in premium and mainstream Menthol segments with Kool and Kent
- Develop and lead new segments: Capsules, Nano, Flavours
- Achieve leadership in Menthol through innovations

- 1<sup>st</sup> world capsule
- 1<sup>st</sup> world menthol thread
- Packaging innovation
- 1<sup>st</sup> flavour capsule
- 1<sup>st</sup> flavour menthol



# BAT GROWING IN ULTRA LOW TAR



( ) indicates index vs. total share

Size increase vs. 2005	CAGR ( '05 – '09)
+5.6ppt	+4.8%

Data Source: BATJ Estimate

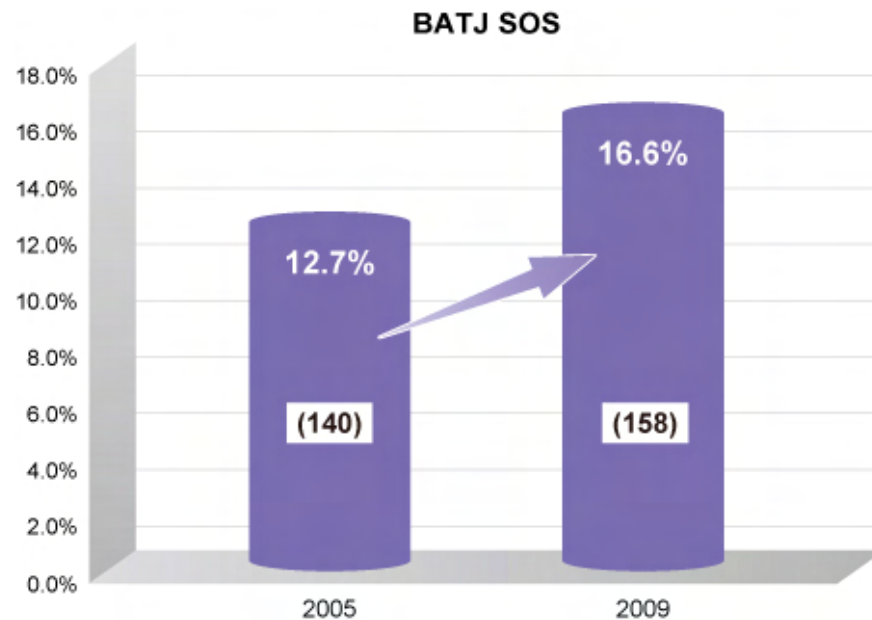
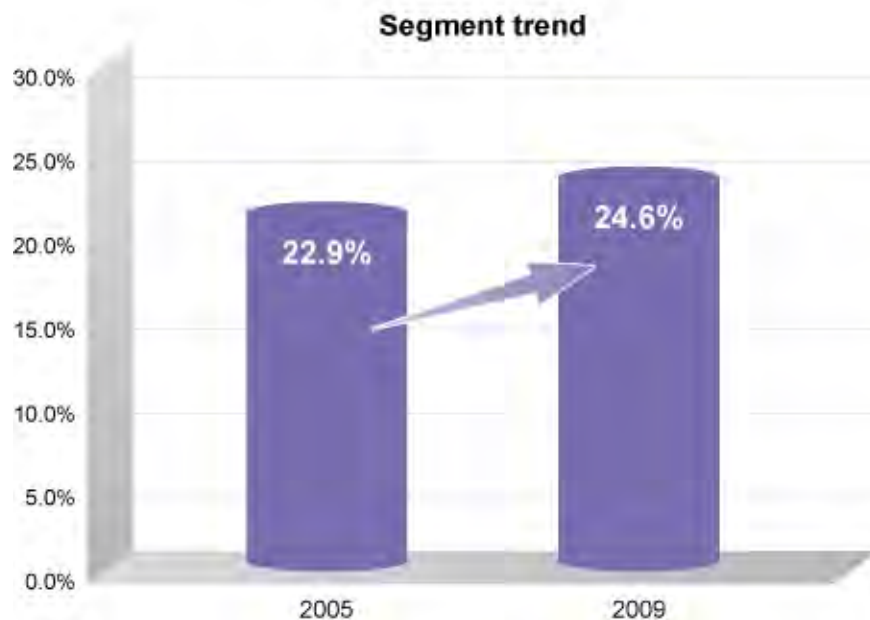


# BAT IN ULTRALIGHTS SEGMENT



- Biggest segment in the market with 32.7% of total market size
- BAT will continue to grow with its core brand - Kent
- Strong innovation pipeline
  - 1st Ultra Low Tar Menthol
  - 1st triple filter technology
  - 1st pellet technology
  - 1st thread product
  - 1st KSSS (Nano)
  - Strong packaging development

# BAT OVER-PERFORMING IN PREMIUM



( ) indicates index vs. total share

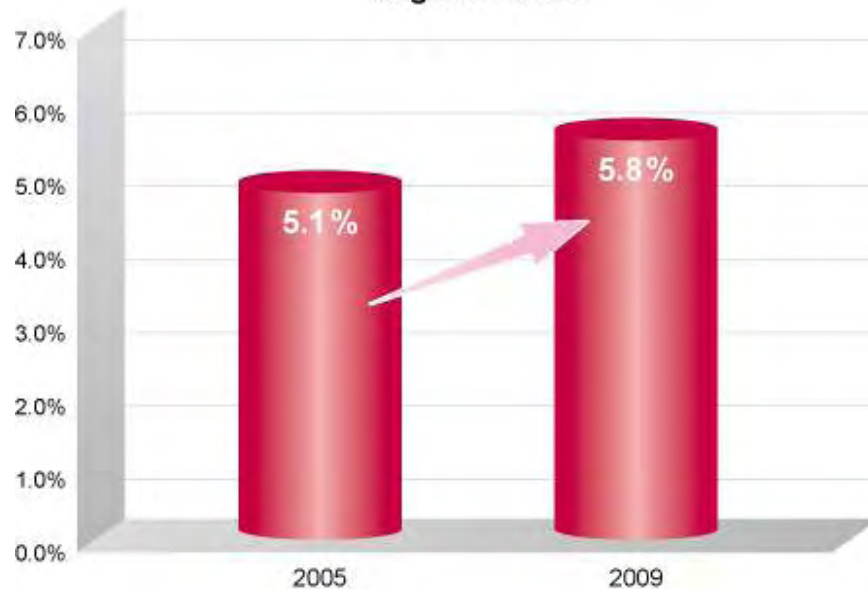
Size increase vs. 2005	CAGR ('05 – '09)
+1.7ppt	+1.8%

Data Source: BATJ Estimate

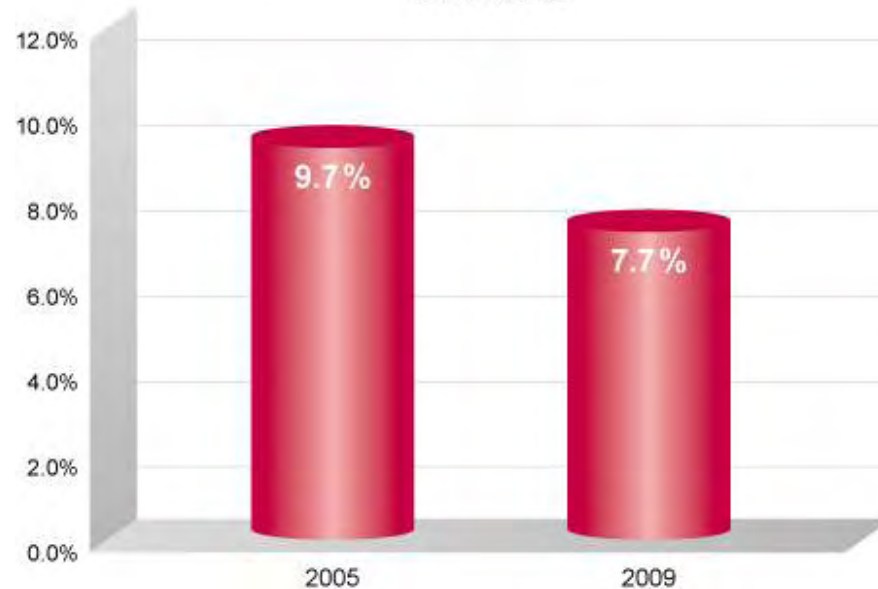


# UNTAPPED OPPORTUNITY IN FEMALE SEGMENT

Segment trend



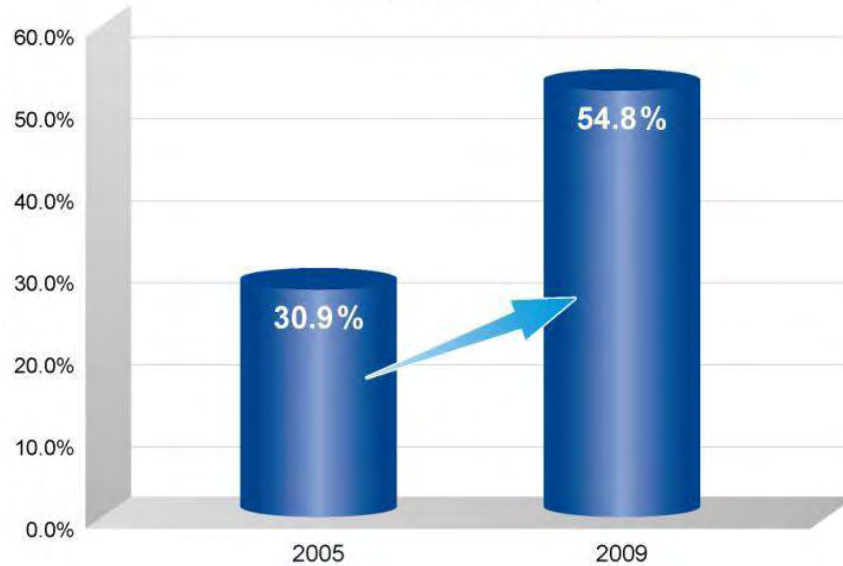
BATJ SOS



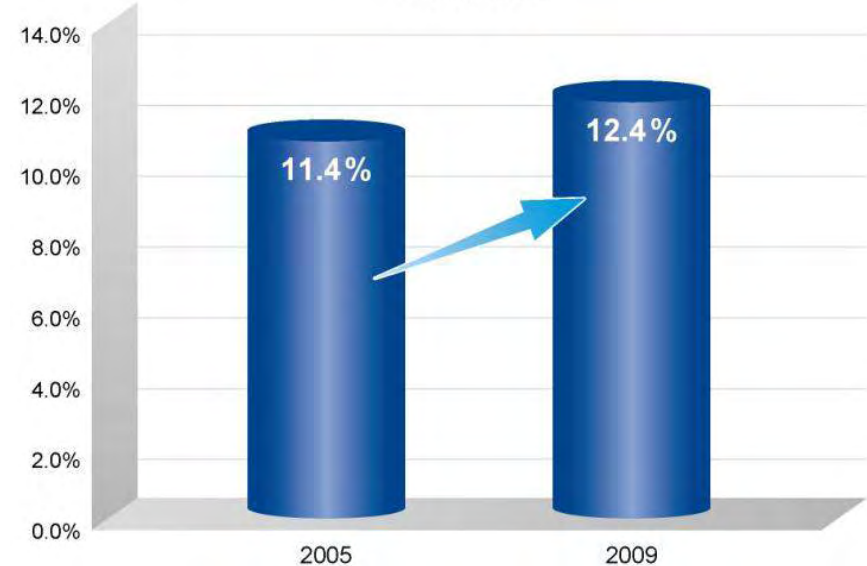
Size increase vs. 2005	CAGR ('05 - '09)
+0.7ppt	+3.2%

# OVER-TRADING IN MOST IMPORTANT CHANNEL

Channel size trend



BATJ SOS



Size increase vs. 2005	CAGR ( '05 – '09)
+23.4ppt	+15.4%



# LEADING GROWTH

“To be the fastest growing tobacco company in Japan, recognized for its passion for innovations and outstanding people.”



**Group**  
**Region**  
**Japan**



**Japan**

**Growth**

- ✓ Consumer, Segments
- ✓ Brand Portfolio
- ✓ Leader in Innovation
- ✓ World class TM&D

**Productivity**

- ✓ Fit For Purpose Organisation
- ✓ Sustained focus on overheads / supply chain efficiency
- ✓ Leveraging global scale

**Responsibility**

- ✓ Shaping Environment
- ✓ IMS2
- ✓ Responsible retailing

**Winning Organisation**

Talent, Capability, Culture

Group  
Region  
Japan



Japan

### Growth

- ✓ Consumer, Segments
- ✓ Brand Portfolio
- ✓ Leader in Innovation
- ✓ World class TM&D

# BRANDS

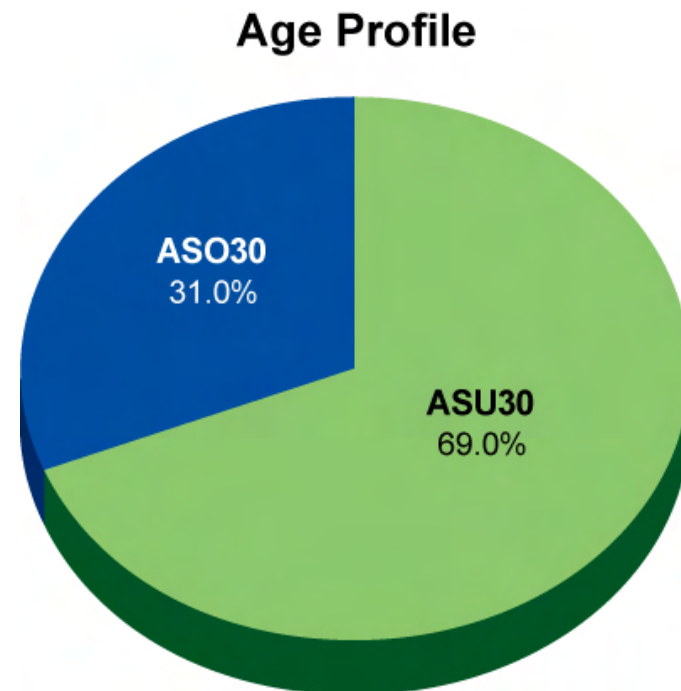
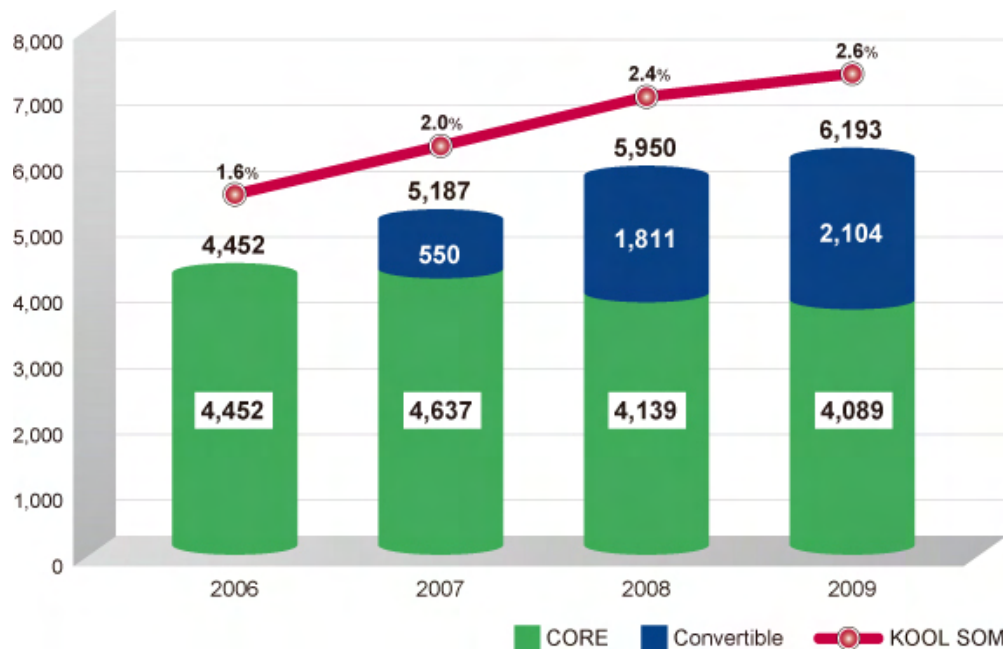
driving the business

- KOOL
- KENT



- Lead Menthol
- Lead Low Tar

# KOOL: GROWTH DRIVEN BY INNOVATIONS



(Source: TIOJ as of Dec'09)

- Fastest growing menthol brand for 4 consecutive years
- Leader in innovations in menthol.
  - 1st capsule in the world
  - 1st flavour capsule in the world
  - Strong innovations pipeline going forward

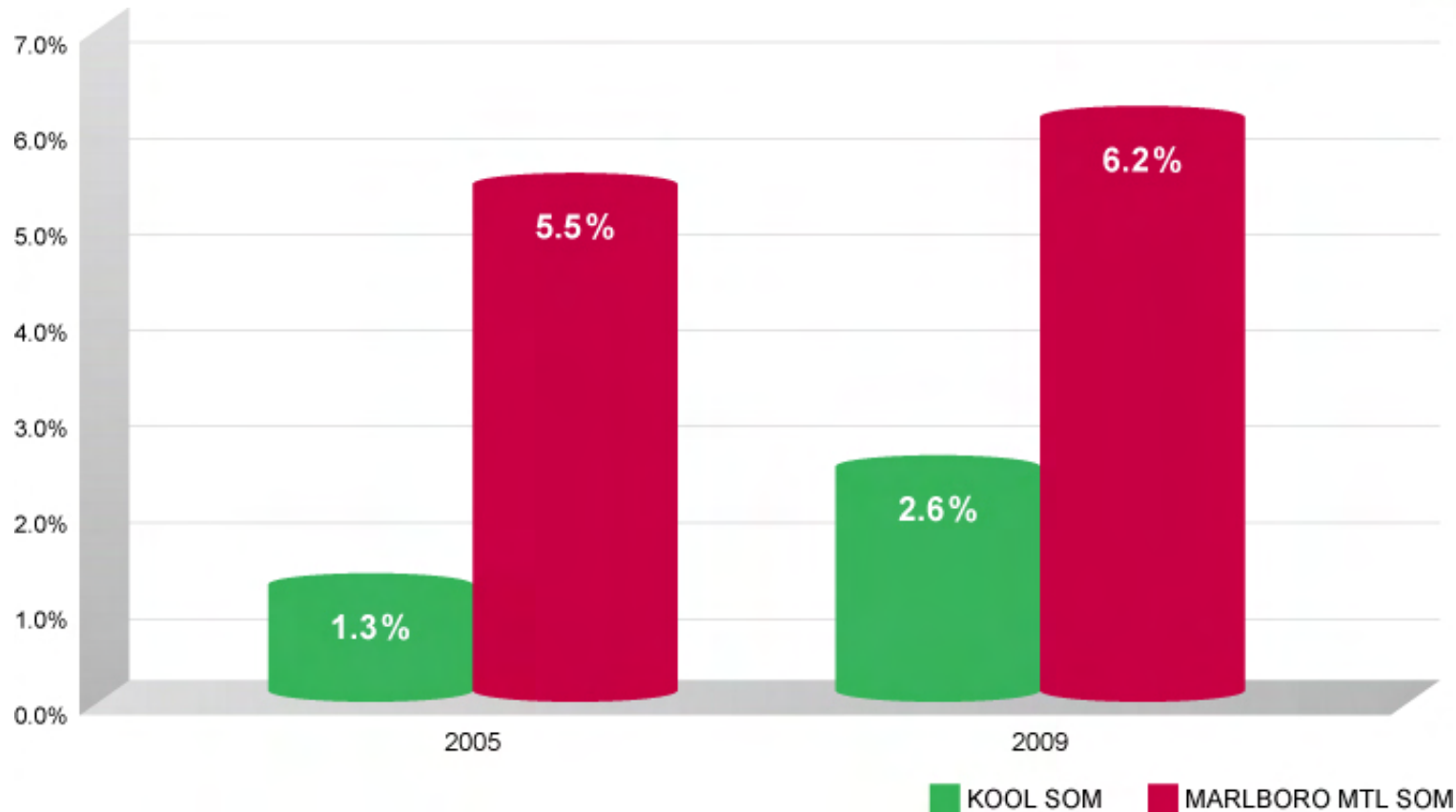
Data Source: BATJ Estimate



# FASTEST GROWING MENTHOL IN JAPAN



BRITISH AMERICAN  
TOBACCO  
JAPAN

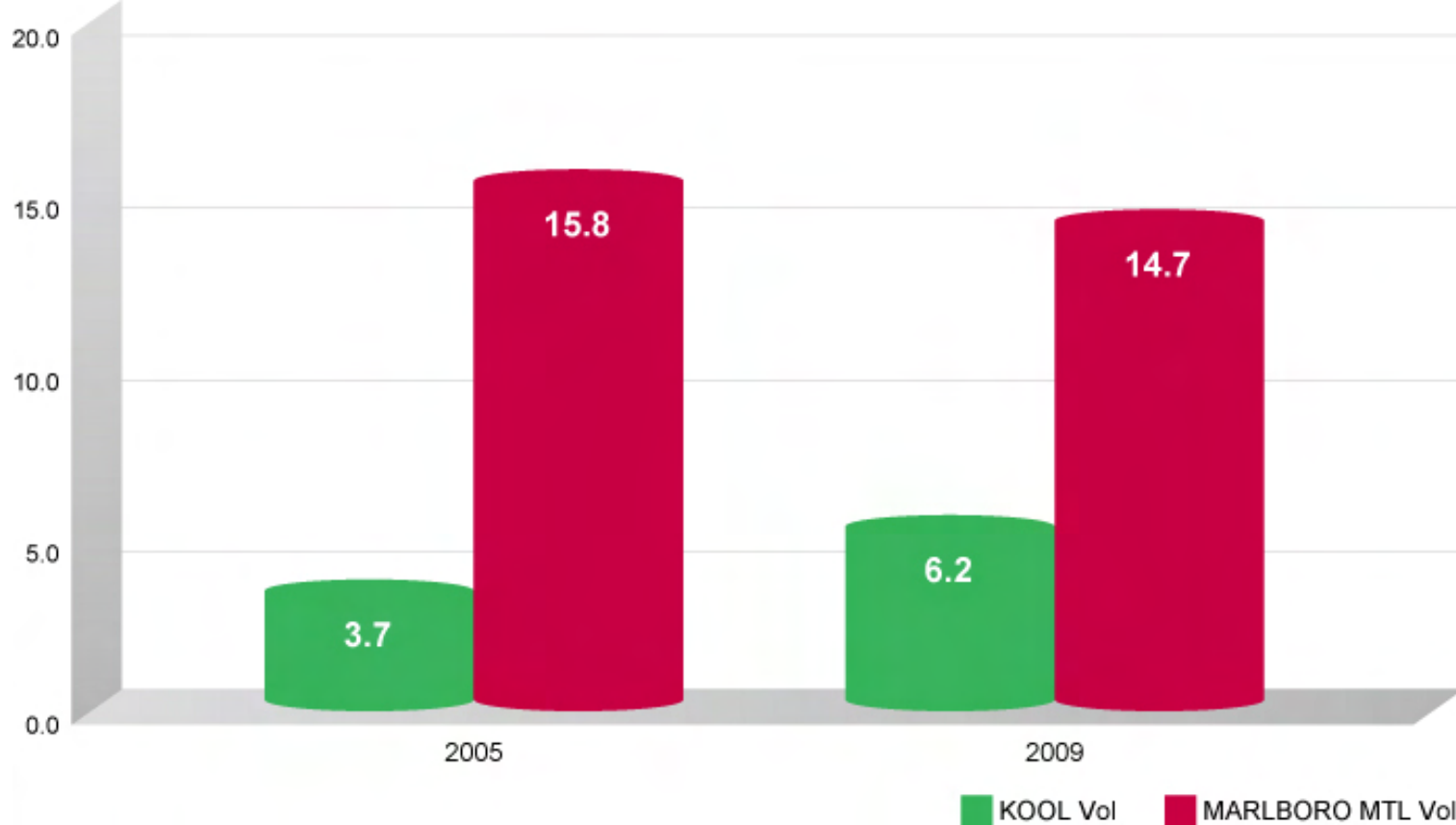


	SOM increase vs. 2009	CAGR ('05 – '09)
KOOL	+1.3 ppt	+19.5%
Marlboro	+0.7 ppt	+3.0%

Data Source: BATJ Estimate



# ONLY PREMIUM BRAND TO GROW VOLUME



	Growth rate vs. 2009	CAGR ('05 – '09)
KOOL	+68.2%	+13.9%
Marlboro	-7.1%	-1.8%

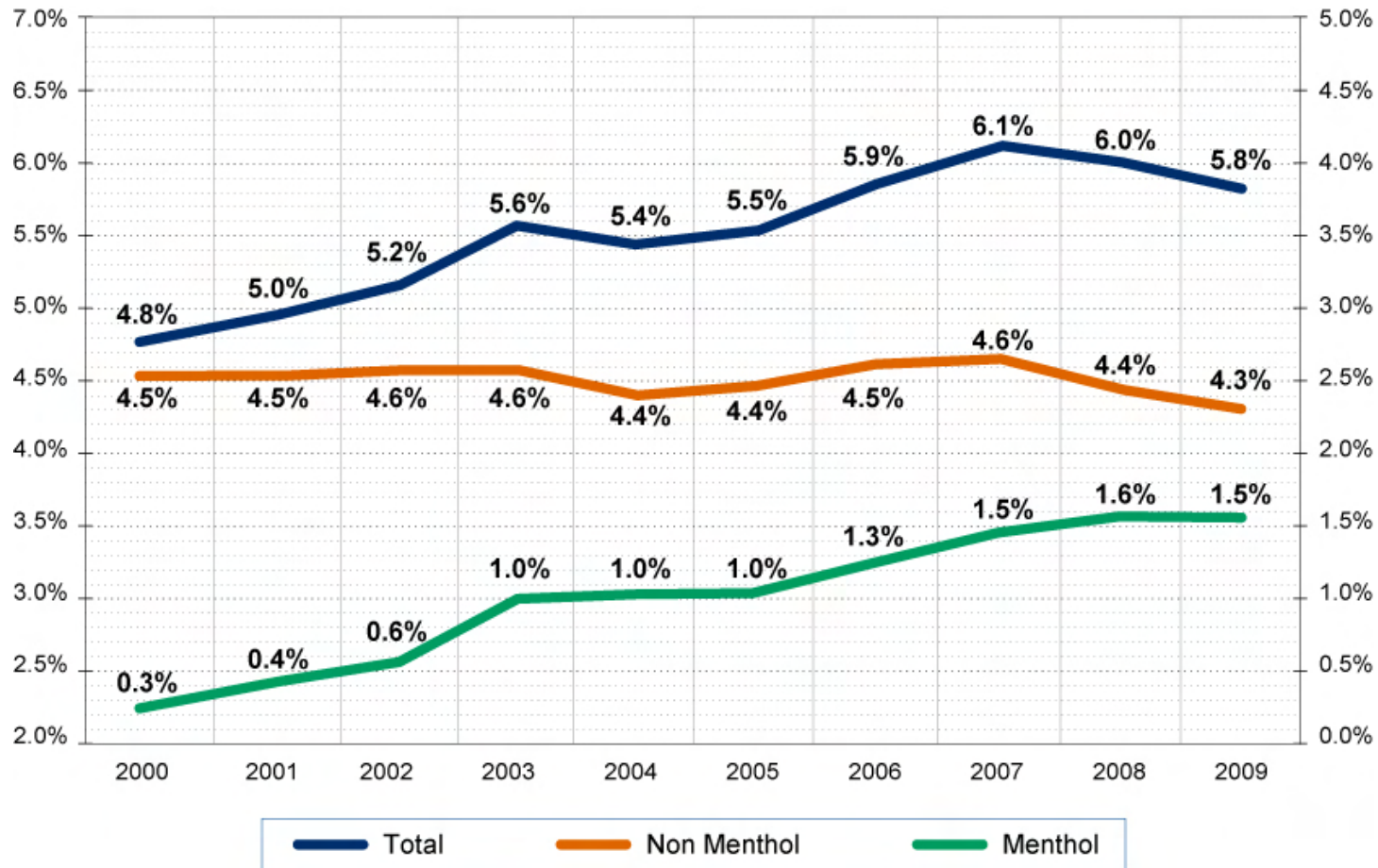
Data Source: BATJ Estimate



# KENT IS A KEY PLAYER IN LOW TAR



BRITISH AMERICAN  
TOBACCO  
JAPAN



Source: TIOJ

Data Source: BATJ Estimate





# KENT GROWTH PLATFORM

## A High-Tech, Low Tar brand



**TASTEK**

- A progressive yet affordable Low Tar offer
- Taste delivery technologies for great taste

**MINTEK**

- A leading Low Tar Menthol brand
- The most innovative product range in its category

**NANOTEK**

- The modern way to smoke
- Compact, sleek, high performance product and pack
- The next generation Kent



# CONSUMER

foresights & insights

- WHO THEY ARE
- WHAT THEY WANT



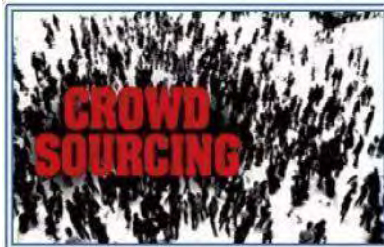
- Segmentation and Behaviour
- Choice drivers

- KEY OUTPUTS



- Performance trackers

# CONSUMER, CONSUMER, CONSUMER!



## PRESEARCH + RESEARCH + TRENDS

- Insights
- Behavioral Presearch
- Co-creation (breaking the mold)
- Competitor Profiling
- Channel Influence (trade leverage)
- Brand Dialogue (CDF progression)
- Conversion

# INNOVATION

winning hearts & minds

- CONSUMER NEEDS
- WIDE-OPEN IDEATION



- Relevant products
- Unparalleled innovations

# COMPANY GEARED BY IDEAS



MATERIALS



INGREDIENTS



TECHNOLOGIES



SHAPES



BRAND STRATEGY

CONSUMER  
INSIGHTS



MARKET  
TRENDS



EXTERNAL  
PARTNERS



Group  
Region  
Japan



Japan

### Growth

- ✓ Consumer, Segments
- ✓ Brand Portfolio
- ✓ Leader in Innovation
- ✓ World class TM&D

### Winning Organisation

Talent, Capability, Culture



LEADING  
GROWTH

# TALENT AND LEADERSHIP

- Fit for purpose organisation
- Right Capabilities
- Alignment
- Leadership at all levels
- Japanese talent for leadership positions in Japan and the Group
- Culture that inspires initiative and innovation







# LEADING GROWTH

- INNOVATION, BRANDS, CONSUMERS
- DRIVING MARGINS
- TALENT, CULTURE, ALIGNMENT

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