



STRATEGY IN ACTION

BAT KOREA

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Strategy in Action

- Korea
- The Cigarette Market
- A Decade of Success
- The Strategy
- Summary and Conclusion

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Strategy in Action

- **Korea**
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Korea



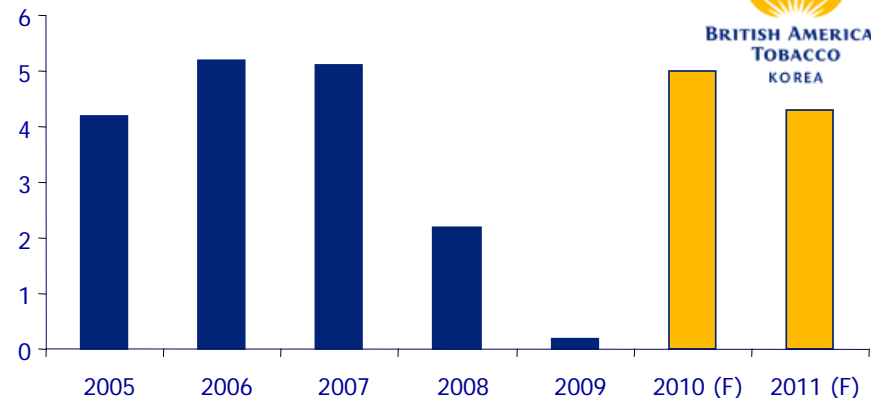
| | |
|-----------------------|---|
| Population | 48.7 million |
| Area | 98,000 km² (Size of Hungary) |
| Density | 50% Seoul Area |
| GDP per Capita | US\$21,000 (2009) US\$11,000 (2000) |
| Inflation | 3.1% (2009) |
| Trade / Growth | Export driven 35% of GDP from export (Japan = 16%) |

Economic Outlook

– Strong Performance

- **\$820 Billion GDP in 2009**
(15th biggest economy)
- **Fastest recovery amongst OECD**
 - Won appreciation
 - Exports are recovering
 - FDI is coming back
- **Korea becoming a global power**
 - Samsung / Hyundai
 - UAE nuclear power reactors deal (\$40 bil)
 - G20 in November 2010
 - Pitching for Winter Olympics and Football
 - World cup in 2018 / F1 in 2010
 - FTA's
- **Concerns**
 - Consumer debt (\$640 bil)
 - Global economy

GDP Growth (% , y-o-y)



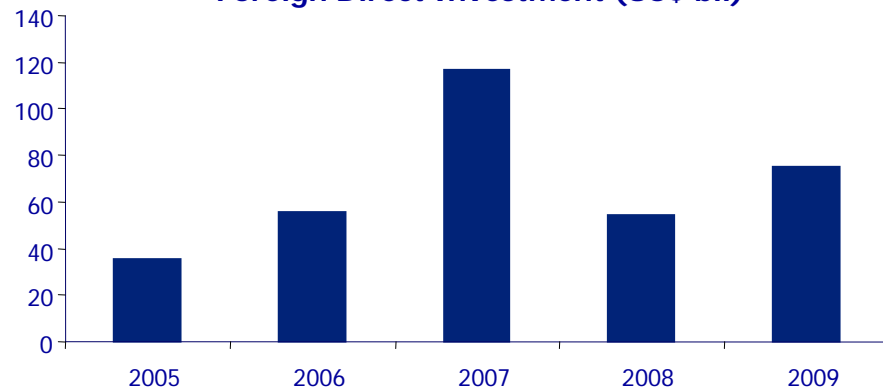
*Source : BOK (Actual) / Asia Pacific Consensus Forecasts (Forecast)

USD/KRW Rates



*Source : BOK (Actual) / Bloomberg Consensus (Forecast)

Foreign Direct Investment (US\$ bil)



*Source : BOK



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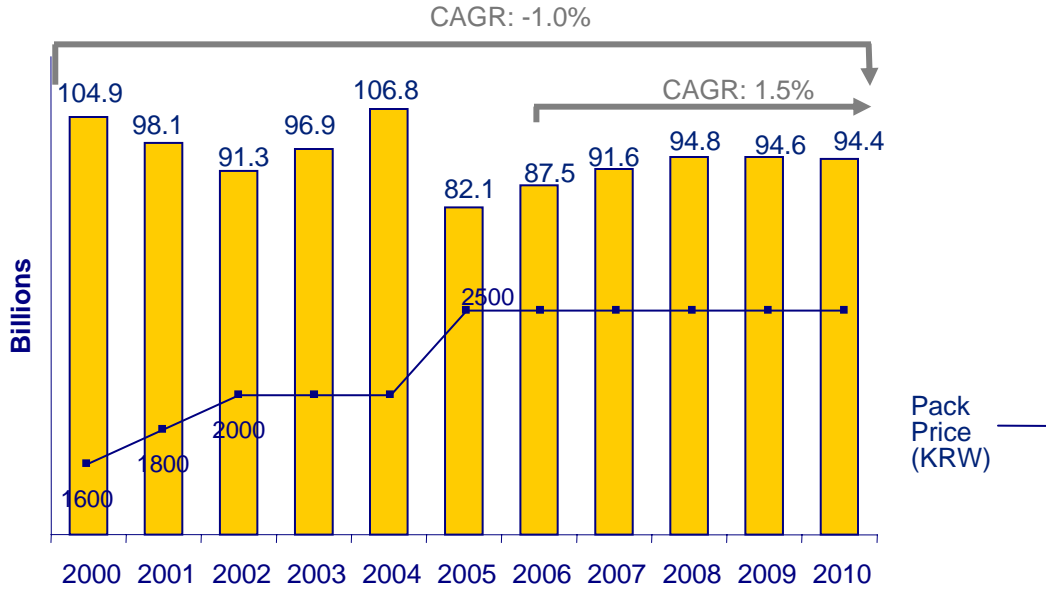
Strategy in Action

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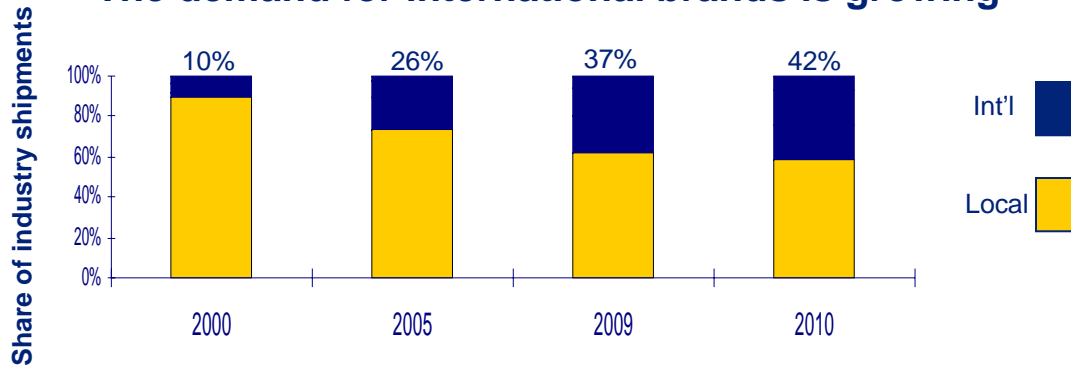


A Dynamic Cigarette Market

Market size and price evolution



The demand for international brands is growing

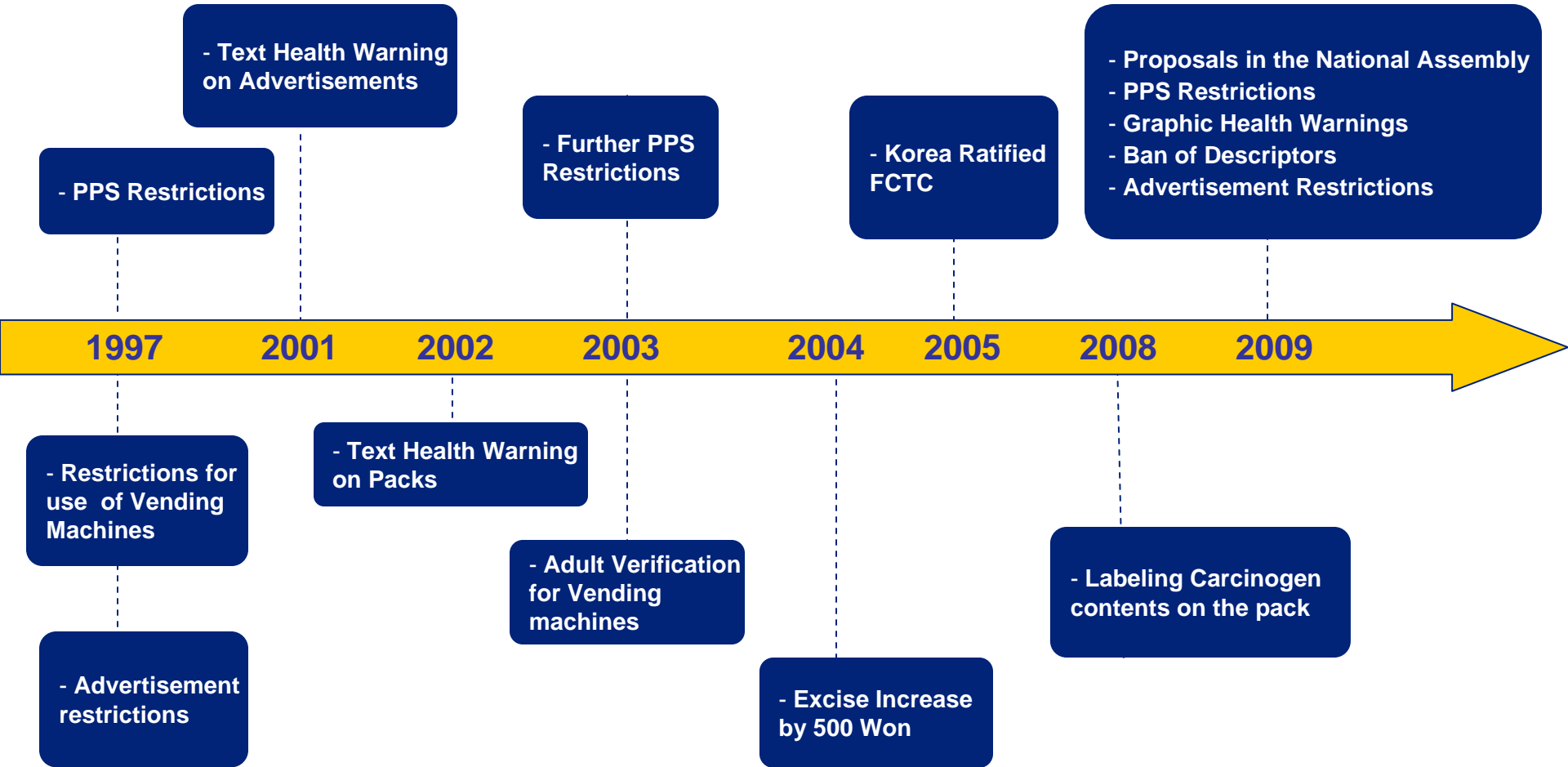


| | 2005 | 2009 |
|-----------------------------|--------------|--|
| Size | 82.2 billion | 94.7 billion 6 th largest* |
| Adult Incidence | 21.3% | 22% |
| Consumption per day | 19.3 sticks | 19.5 sticks |
| Switching | 23% | 21%, highest globally |
| Superslims | 36% | 38%, largest globally |
| Premium Segment size | 65% | 75% |
| Lights Segment Size | 22% | 34%, lightest globally |

* Excl. China, India and USA



Regulatory Environment



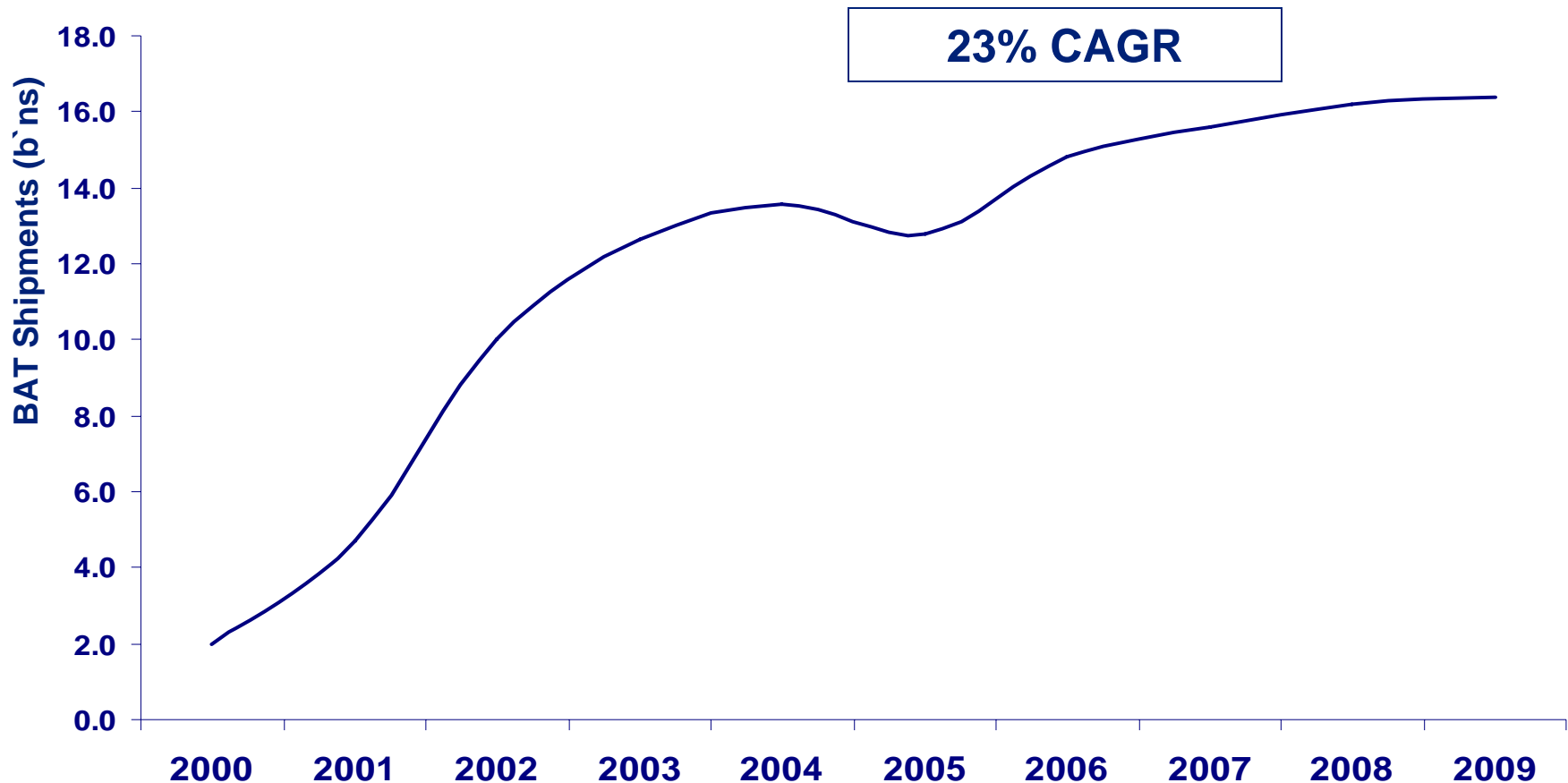


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Superior understanding of the consumer resulted in outstanding growth for BAT



Consistent evolution in Dunhill has resulted in 15% share growth over the last 10 years

- Launch Top Leaf / Cigar Flagship store



- Launch Dunhill Balance Orchestra – Pack modification



- Focus – Pack Change Launch 0.1mg for Dunhill KS&SS



- Launch Dunhill Lights Menthol



- DHL LEP – World cup celebration



- Launch Dunhill 1mg
- Launch Mist/ Frost I



- Launch D-Series (Premium+)



- Launch Fine Cut SS
- Tribute W1&2 LEP
- Re-launch D-Series



- Launch Fine Cut 1MG Menthol & 6mg KS Menthol
- 1907 Flagship store – My Mixture

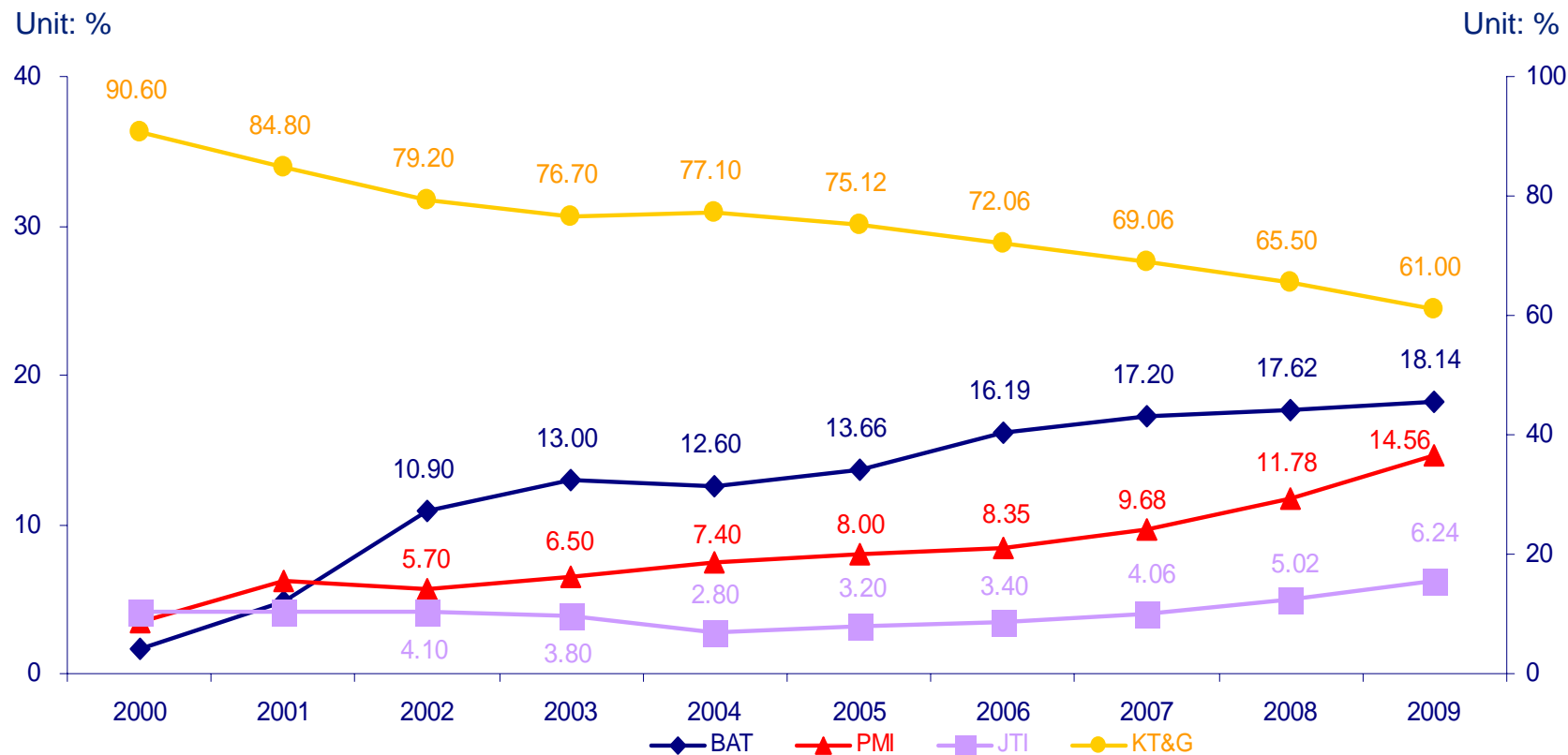


A very successful build up of BAT in Korea

- 1998** British America Tobacco Korea established
- 1999** Merger with Rothmans Korea (Dunhill) with 200 employees
Direct sales system established
- 2002** **Construction of BATK factory**
10bn off-take sales
11% share of industry with 600 employees
- 2003** First local production of Dunhill
- 2004** Began to export “Made in Korea” product
- 2006** Factory achieved 50 billion sticks (cumulative)
- 2007** **DHL became the largest cigarette SKU in Korea**
BAT-KM (Factory) awarded as responsible tax-payer by the government
Dunhill Superslims launched
- 2008** Dunhill Brand achieved 15% market share
- 2009** **Over 18% market share**
17 Billions cigarette sales
Factory achieved 100 billion sticks (cumulative)



BAT – A successful company in Korea and large opportunity available



- Continuous decline of local brands KT&G
- But PMI and JTI also successful in 2008 and 2009

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Our strategy is fully aligned with the group: leadership of the tobacco industry

Group
Region
Korea



Growth

- ✓ Winning Portfolio
- ✓ Leader in Innovation
- ✓ World class TM&D
- ✓ Pricing

Productivity

- ✓ Consumer centric local agility
- ✓ Leader in product quality
- ✓ Leveraging global scale

Responsibility

- ✓ Preferred Partner
- ✓ Shaping Environment
- ✓ #1 Reputation

Winning Organisation

Leading International Employer in Korea

Korea



Growth

- ✓ Winning Portfolio
- ✓ Leader in Innovation
- ✓ World class TM&D
- ✓ Pricing

Dunhill - No.1 International Brand in Korea



Dunhill flagship store



DHL campaign



Premium presence in retail

- Dunhill is number 1 ASU 30 with 28% share
- Dunhill Lights = No.1 SKU in Korea
- Dunhill 1mg = No.1 SKU in 1mg segment
- Dunhill Frost = No.1 SKU in menthol segment
- Dunhill Fine Cut SS = No.1 SS in international SS segment



Dunhill will continue to be the premium benchmark brand in the future

- Launch of Dunhill **Nanocut** – Driving ASU30 inflow through innovation compact offer



Building our future with Kent

- ASU25 wanting ‘individual choice’
- Innovation platform based on technology positioning
- Utilise global pipeline for future rollout

Direct Sales: Close To Our Consumers

- Retail universe of 134,000 with 90,000 customers
- 4.7million store visits every year
- BAT direct sales distribution trade coverage 74% incl. distributor (26% K/A)



**End to end supply chain
managed in Korea.**

Direct Sales – A Real Competitive Advantage

Close to the consumer



Direct feedback about consumer behaviour

Higher trade coverage in Retail



Higher distribution for BAT brands

Faster speed to market than most competitors



New launches and higher flexibility

Improved retailer influence



Relationship management

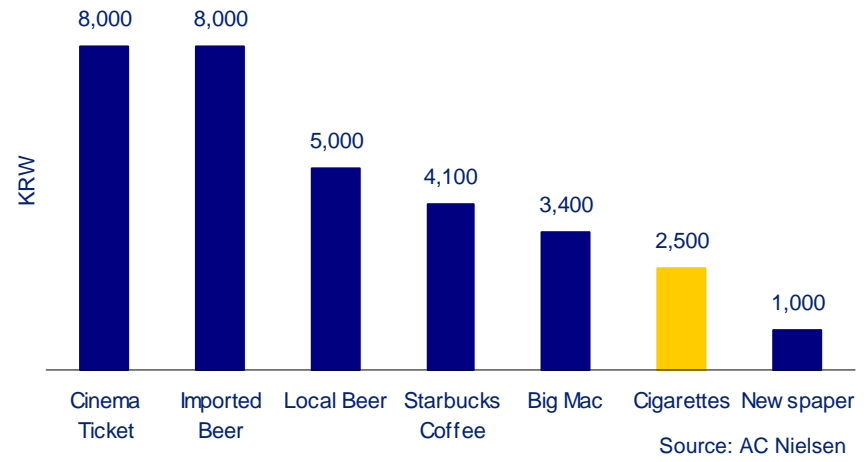
Higher levels of employee loyalty



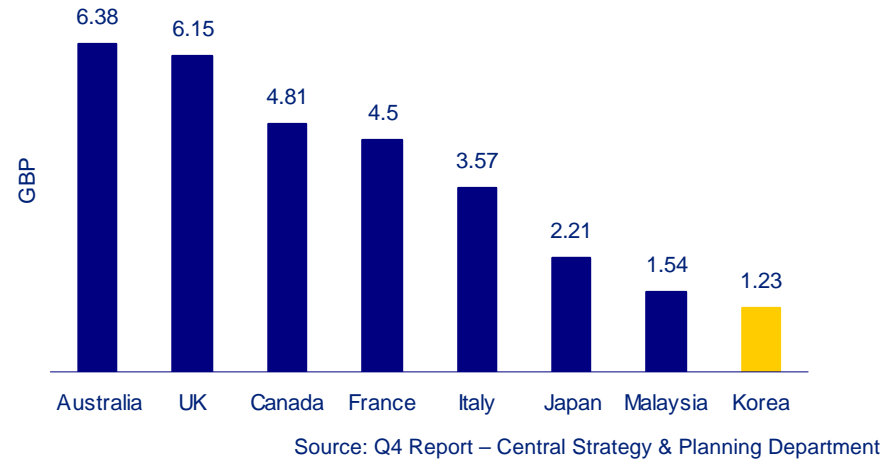
Low turnover, committed energized and experienced

The Pricing Opportunity In Korea

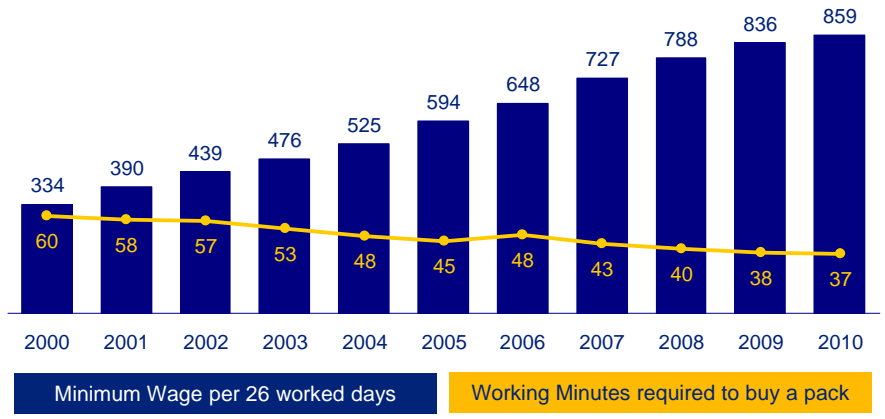
Cigarettes are very affordable



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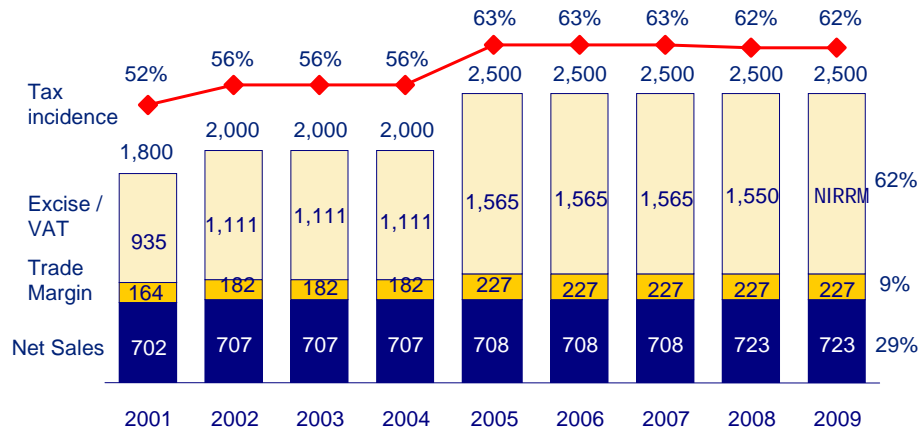


Cigarettes are very affordable



Source: Ministry of Labour

Relatively Low Excise

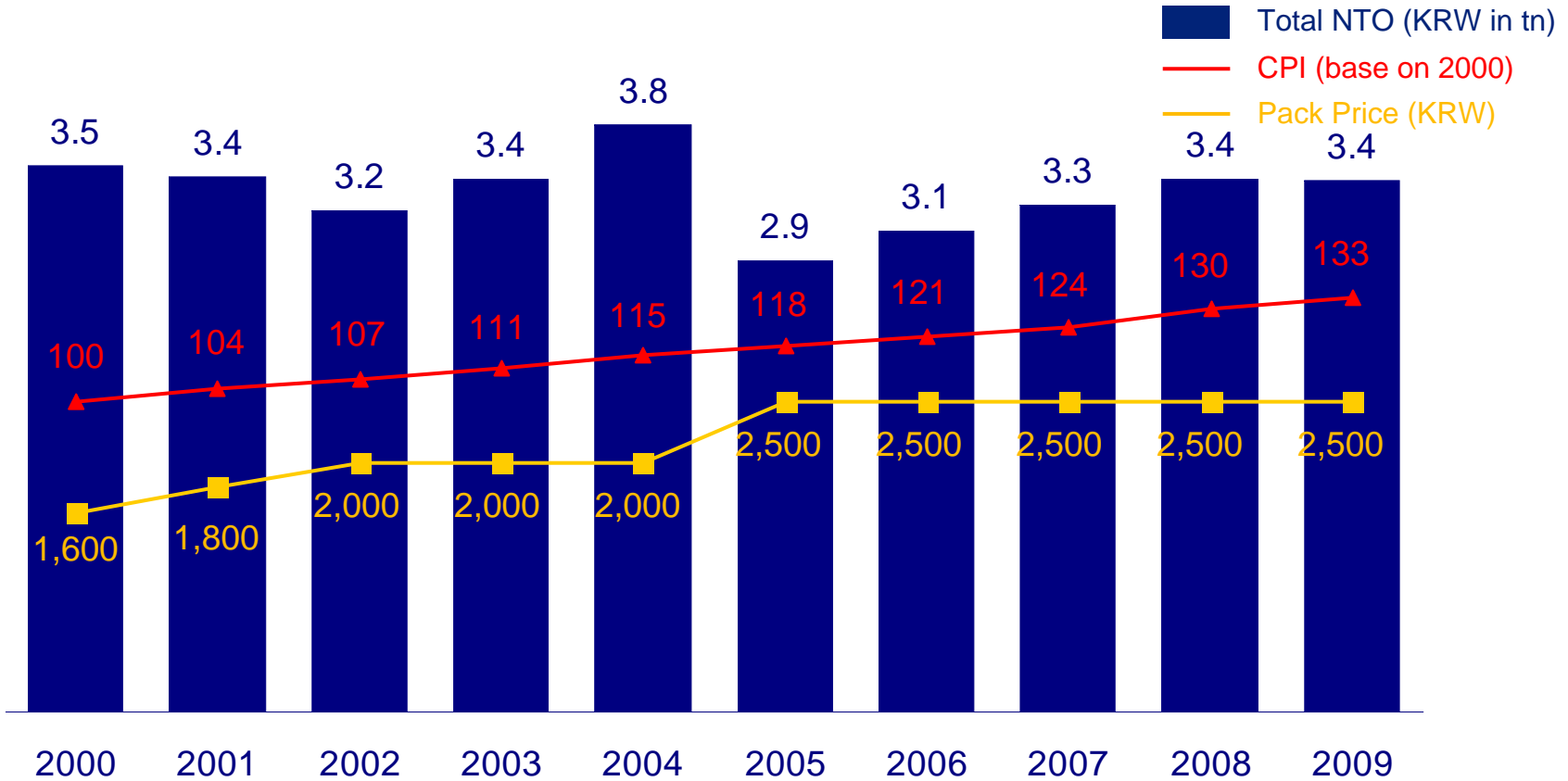


Source: BAT Internal



Growth

Market Value



- CPI and our cost base increased, but margin flat since 2001
- 100 KRW (0.05 GBP) p/p price increase will (+4%) deliver additional NTO of approx. 0.4 trillion KRW to the market



Productivity

- ✓ Consumer centric local agility
- ✓ Leader in product quality
- ✓ Leveraging global scale



Driving Productivity to Fuel Growth

| | 2006 (Base) | 2007 | 2008 | 2009 |
|-----------------------------|-------------|------------|-----------|-----------|
| BATK Overheads Index | 100 | 105 | 95 | 92 |
| Consumer Price Inflation | 100 | 103 | 108 | 111 |
| Average Salary Increase | 100 | 106 | 111 | 116 |

- Leveraging global scale
- 2008-2009 zero base costing in Korea
- CPMH (Cigarette Per Million Hour) : BAT record hold by BAT Korea



Responsibility

- ✓ Preferred Partner
- ✓ Shaping Environment
- ✓ #1 Reputation

Responsibility

“Our objective is to continue leadership as a responsible corporation in Korea.”

- Continuous Dialogue with Stakeholders.
 - 5 BAT Korea case studies included in our 2009 Group Sustainability Report.
- CSR and CSI programs.
- International Marketing Standards Implementation
 - Fully compliant result in international BAT audit in 2008.
- Continuous, transparent and open dialogue with government.
- Our Concerns :
 - Display Ban, Plain Packaging, Total Smoking Ban, Ingredients



Recognition

**Excellent
Corporate
Governance
Award
2006**

**5Mn Dollar
Export Tower
2007**

**NCSI Award
(5yrs)
2004,2005,2006
2008,2009**

**Exemplary
Taxpayer Award
2010**

**NBCN
2009**

**Sports Award
2008**

the

**5Mn Dollar
Tower**

**5Mn Dollar
Tower
2008**

**Sincere
Tax Payment Award
2007**

**2008 Stevie Award
2008**

**Sincere
Local Tax Payment
Award
2007**



Winning Organisation

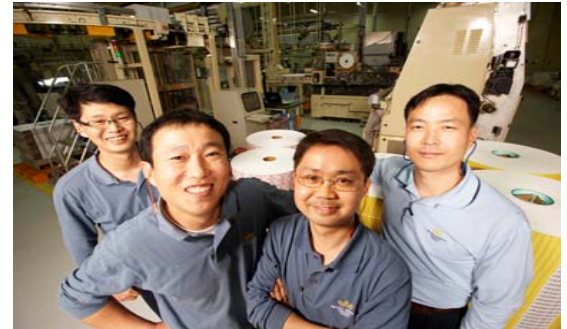
Leading International Employer in Korea



Winning Organisation

People: Our Winning Organisation

- Senior management team with 120 years of international tobacco experience in 30 countries.
- Very strong result oriented and passionate sales force: we can, we will!!
- One of the best and most efficient factories in the world: people make the difference.
- Robust management trainee program.
- International company vs local chaebol.
- Award, Recognition and Celebration programs.
- Diversity : 16 nationalities



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Summary and Conclusion

What will drive success?

- Clear brand propositions for different consumer needs
- International brands
- Innovations
- Customer + account management
- Stakeholder engagement
- People

How is BAT positioned?

- Leading in differentiated portfolio marketing
- Strong brands geared for growth
- Kent → the international innovation platform
- Leverage global expertise & direct sales
- Sound reputation + sensible regulation
- Passionate & result oriented people are a key advantage

A decade of shareholder return: 23% CAGR in shipment volume