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Investor Day 2013

The Regulatory Environment

Kingsley Wheaton



Agenda



Our view on Regulation

Regulatory Evolution

Open and transparent views ensuring informed consumer choices

Regulatory Updates

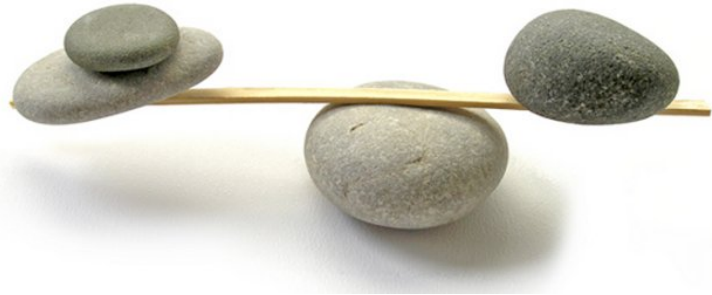


Our Regulatory Position



We support sound regulation, which is consultative, evidence based, delivers its policy aims and recognises unintended consequences. We will actively defend our ability to compete.

We support regulation that...



- Eliminates the black market in tobacco products
- Prevents access to tobacco products by minors
- Gives consumers confidence in NGPs
- Drives awareness of the health risks of smoking through appropriately sized health warnings
- Promotes the economic sustainability of tobacco growers

Agenda



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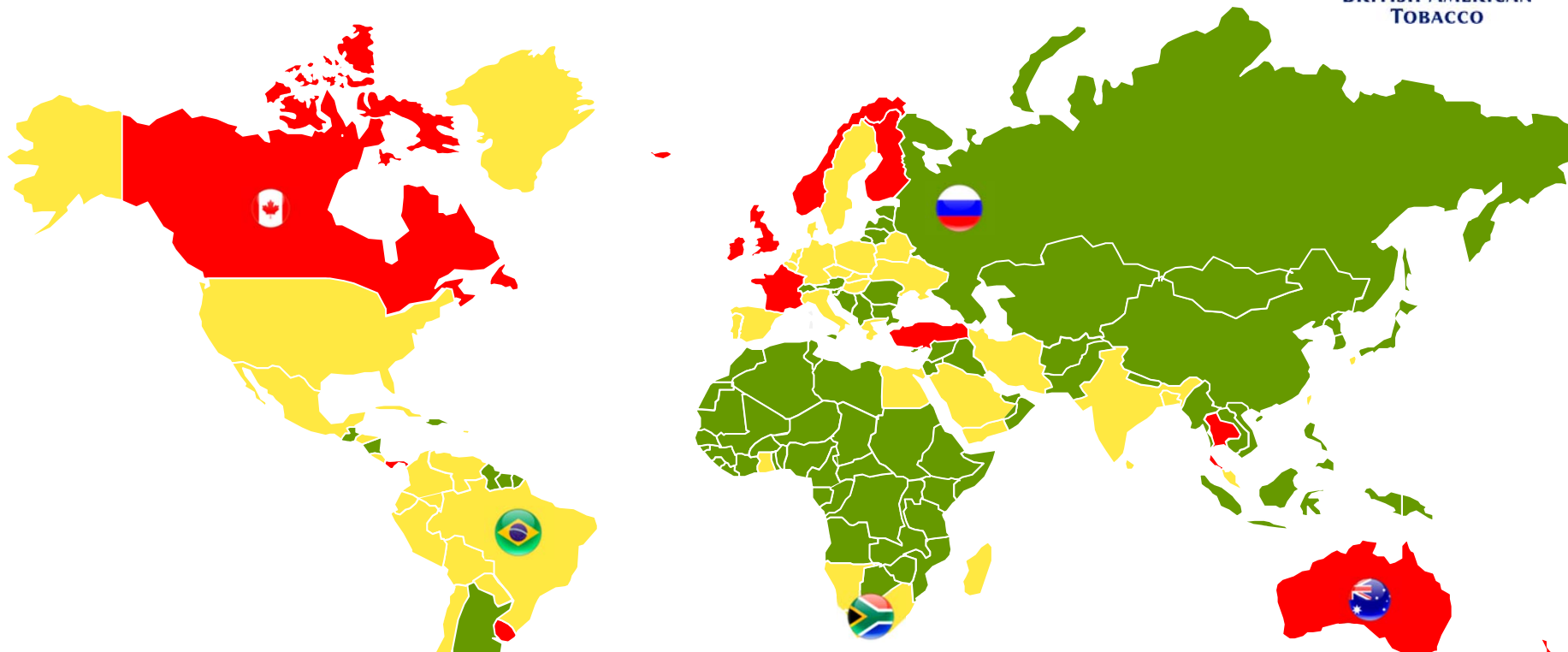
Regulatory Updates

Regulation typologies



We support sound regulation but will actively engage to maintain our ability to compete

Snapshot of the Global Regulatory Environment



Globally there is a broad spectrum of regulatory stringency (notably in our key markets).
Stricter regulations tend to follow OECD patterns

Agenda



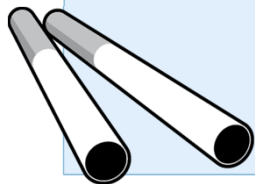
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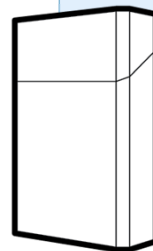
Open and transparent views ensuring informed consumer choices

Regulatory Updates

Key regulatory issues



Product



Pack



Farmers



**Consumer
Communication**

Maintaining our ability to compete

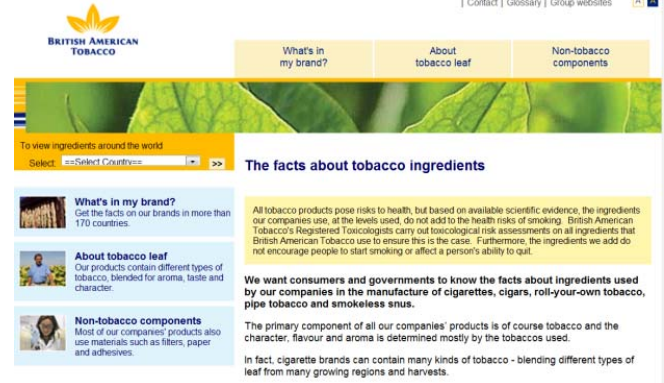
Being open and transparent with our views



Pakistan



Spain



batscience.com
bat.com
bat-ingredients.com

We ensure our voice is heard

3rd Parties and Stakeholder Engagement



Canadian NGOs and business associations against illicit trade



British consumers against plain packaging



Brazilian farmers against ingredients bans

Agenda



Our view on Regulation

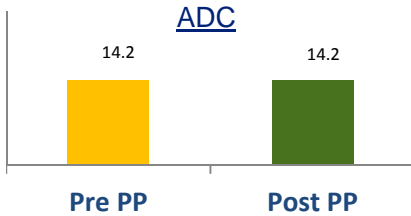
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Post Plain Packaging in Australia

Average Daily Consumption continues in line with historical trends

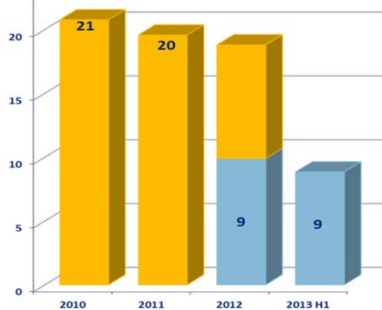


| 2009 | 2010 | 2011 | 2012 | 2013 (June 2013) |
|------|------|------|------|---------------------|
| 15.8 | 15.5 | 15.3 | 14.8 | 14.5 |

Source: GCS

Latest market volume data indicates a slower decline than previous years

Cigarette Industry Volume (Bns)



| % Var on SPLY | 2010 | 2011 | 2012 | MAT June 2013 |
|---------------|------|------|------|------------------|
| Industry | -8.7 | -5.8 | -4.1 | -2.1 |

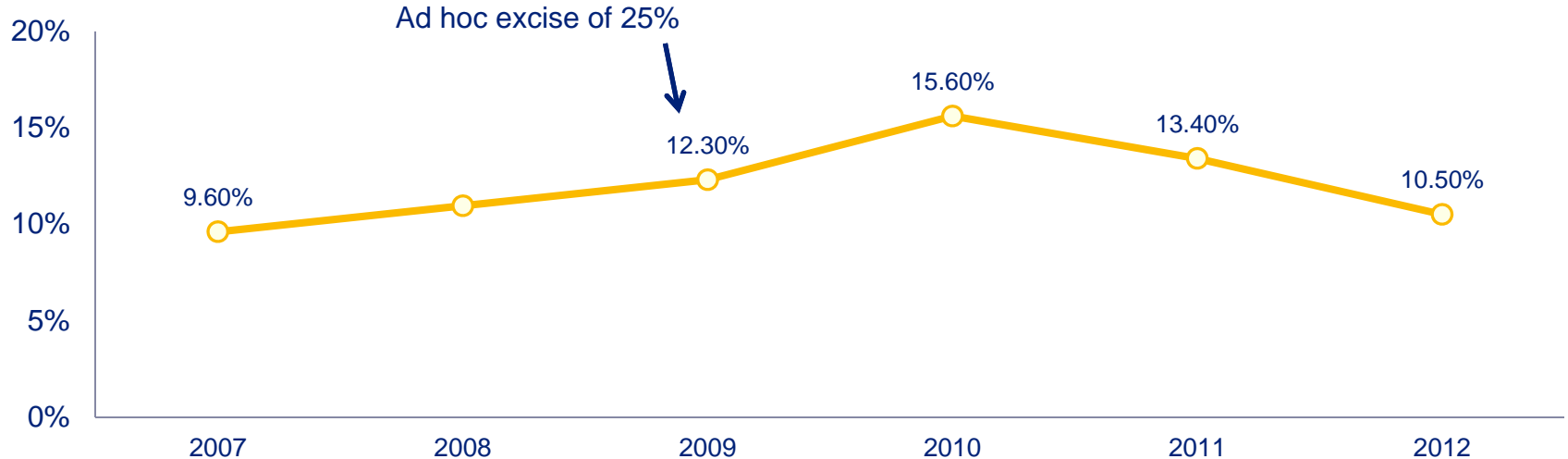
Source: Industry Exchange

Illicit trade in Australia



Illicit trade spiked in 2010 as a result of the 25% ad hoc excise increase but had steadily declined since then – measuring 10.5% in 2012

Illicit Tobacco as % of legal TMC & RYO Sales



Source: Deloitte AIT Report 2012

Preliminary results for 2013 show an increase in illicit trade

Australia Plain Packaging – WTO



- Ukraine, Honduras, Dominican Republic and Cuba
- Ukraine is in the process of panel composition
- 35 third parties to Ukraine's dispute

Expected Timeline

- Panel report expected around mid-2015
- If appealed, appellate body report by end 2015
- It will be Australia's decision how to comply within 15 months (ie 2017)

The biggest dispute in the history of the WTO

Plain packaging elsewhere

Concerns about policy efficacy and Intellectual Property



New Zealand

Although says it is in favour, the Government will wait until after the WTO ruling: *“New Zealand has never not observed a WTO ruling...and we don’t want to upset the apple cart over a relatively small issue.”*

NZ Prime Minister John Key, New Zealand Herald, 6th March 2013



United Kingdom

“The Government has decided to wait until the emerging impact of the decision in Australia can be measured before we make a final decision on this policy in England.”

UK Minister of Health Jeremy Hunt, Written Ministerial Statement, 12th July 2013



Thailand

“The regulation contains several legal problems that need to be considered, including clarifying the reason behind the enlargement of the health warning labels; (...) an excessive burden on the plaintiff; whether the ministry has thoroughly weighed the benefit of the regulation for public health protection against the damages that may be caused to the plaintiff”

Ruling of the the Central Administrative Court, Thailand, 27 August 2013

Brazil Ingredient Regulation - Status


March 2012 : The regulatory agency in Brazil (ANVISA) banned ingredients used in the manufacturing of cigarettes



In July 2013 ANVISA decided to:

- From 15 September 2013 menthol and clove (kretek) not allowed
- Suspend the ban of non-characterising flavours
- Advisory committee to assess all ingredients considered essential to the manufacturing process – proposal in 12 months
- Legal challenge remains in place

Current Positions on TPD

|  | Commission Proposal | Council Position <i>as per 21/6 Agreement with Member States</i> | ENVI Position <i>(subject to EP approval)</i> |
|--|---|---|---|
| Market Compliance | late 2015/ early 2016 | late 2015/ early 2016 <i>with exceptions for menthol, T & T and e-cigarettes</i> | late 2015/ early 2016 <i>with exceptions for ingredients regulation and e-cigs</i> |
| Slims Ban | Yes | No | Yes |
| Health Warnings | 75% top + substantial pack standardisation | 65% top + some pack standardisation | 75% top + slightly less pack standardisation |
| Characterising Flavours Ban | Yes, late 2015/ early 2016 | Yes, <u>from 2019</u> | Yes, from 2017 + approve all ingredients from 2017 |
| Track & Trace to retail | Yes, with 1cm ² security feature | Yes, from 2018 | Yes and ban on industry solutions |
| E-Cigarettes | As medicine above certain nicotine thresholds | As medicine above lower thresholds but from 2017 | All e-cigs as medicine from 2017 |

All timing predictions assume adoption in Q1 2014

Council and Parliament Negotiate Toward a Final Agreed Directive

Plenary Vote

European Parliament Plenary Vote

The European
Parliament will
vote on the
position presented
by the Parliament's
Health Committee
(ENVI)

October 8th

Commission Position

Commission takes position on Plenary Vote

Commission will take a
position on the
Parliament's position

It can try to block
amendments to its
Proposal passed by
Parliament

Effect of institutional veto
= unanimity required in
Council

Late October

Triologue

Council and Parliament negotiate (facilitated by Commission)

Council negotiates on the basis of its June
position; Parliament negotiates on basis
of plenary vote

Given agreement, they will adopt a final
Directive in Q1 2014

No agreement, parliament will start a
second reading, up an additional three
months

Through Year End

Summary

We support sound regulation but will actively engage to maintain our ability to compete

We will engage against ineffective & unsound regulation

BAT remains competitive across very diverse regulatory environments

We have seen some governments 'think again' in terms of regulatory policy





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