



Consumer Analysts Group of Europe

London, 20 March 2012



Ben Stevens

Finance Director and Chief Information Officer

Agenda

- A proven strategy
- Our brands and strengths
- The competitive landscape
- Performance
- Q&A

Our vision



- Leadership in earnings and value
- “For Leadership to be sustainable, we need to be best when it comes to:
 - Understanding our consumers and our customers,
 - Leading emerging consumer segments,
 - Developing and rolling-out innovations which exceed consumer needs
 - Meeting the expectations of society”

Strategy for creating shareholder value



- The strategy does not change, but we are improving how we execute it
- Growth is necessary to meet our revenue and earnings targets
- We seek to grow share across key geographies, including through M&A
- We seek to grow share in key consumer segments via brands with first to world innovations

Strategy for creating shareholder value



Productivity

- Generate the funds to underpin earnings and invest in profitable growth

Winning Organisation

- Ensure that we have the right talent in the right organisation to execute our growth strategy

Responsibility

- Act in the right way to protect our ability to grow share sustainably

Our strengths

- Some great brands
 - Based on consumer insights
 - Opportunities in emerging consumer segments
 - Opportunities in Key Geographies
 - First to world innovations

Our strengths

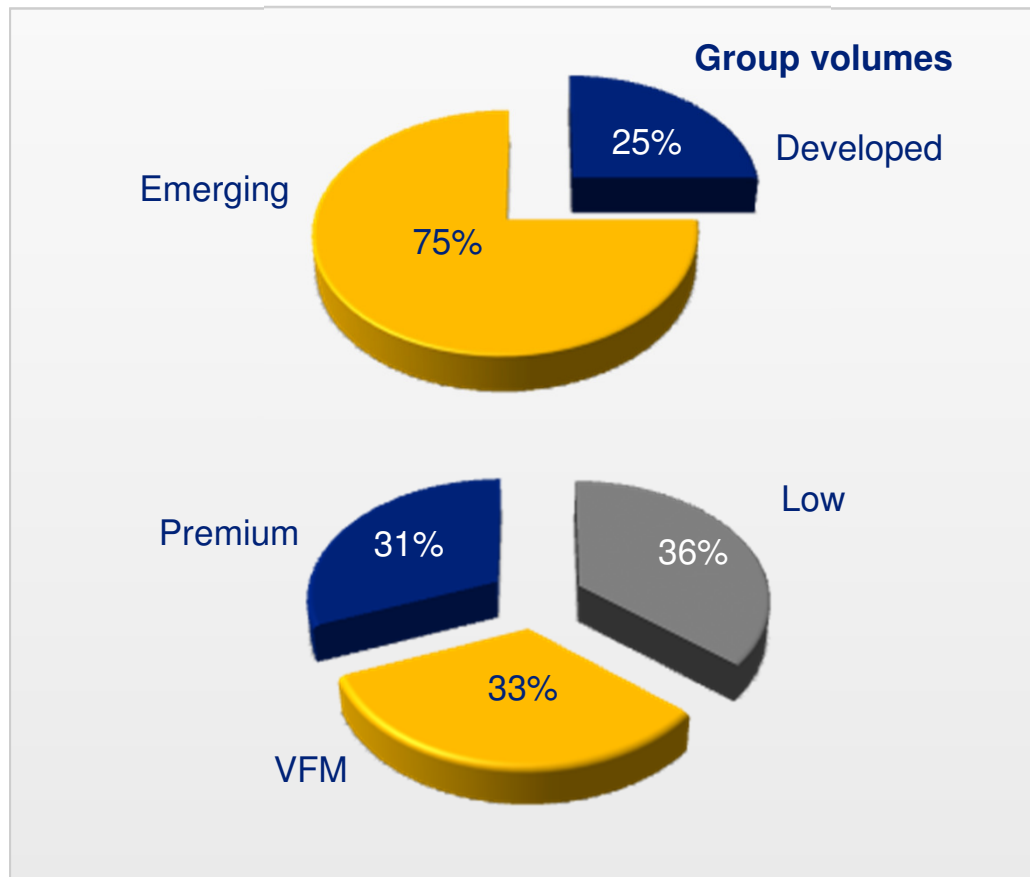
- Some great brands
- World leading innovations
 - Brand driven
 - Focussed on size and scale
 - Deployment across the Globe
 - A full pipeline



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Our strengths

- Some great brands
- World leading innovations
- A great business mix



Our strengths



- Some great brands
- World leading innovations
- A great business mix
- Fully integrated supply chain
 - Leaf sourcing
 - Distribution



Our strengths



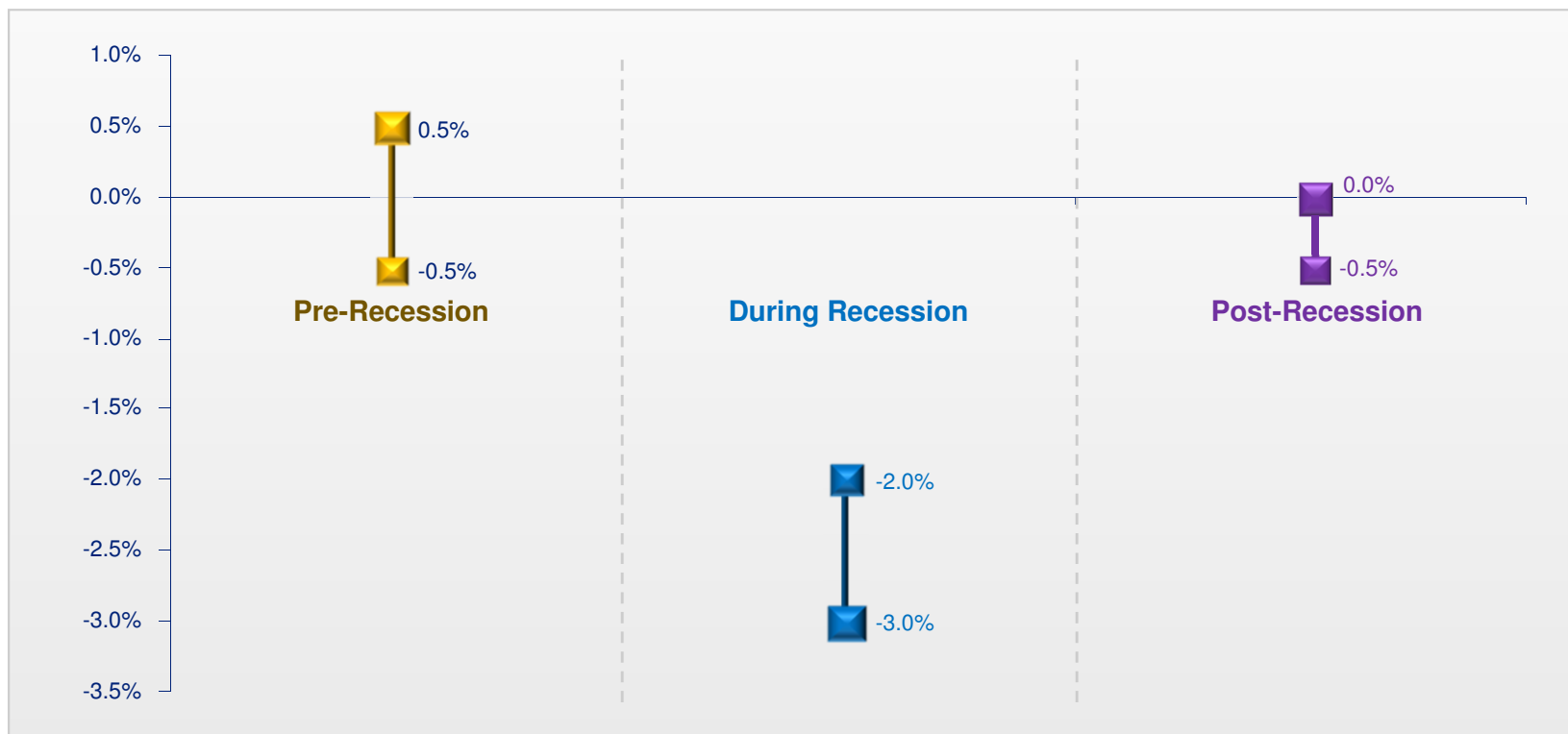
- Some great brands
- World leading innovations
- A great business mix
- Fully integrated supply chain
- Harm reduction





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The industry will recover



* Company estimates for Total world including Illicit trade and excluding China, USA and India

INDUSTRY VOLUME DECLINE IS MODERATING

Well positioned for the recovery...



VOLUME PERFORMANCE FULL YEAR, 2011

IMPACT ON BAT

Industry dynamics

-1.5%

Accelerated legitimate industry declines due to recession, excise and price increases

Organic performance

+1.1%

Share increased in Pakistan, Japan, Egypt, Ukraine, Russia and Bangladesh more than offsetting decline in S Korea, Turkey, Brazil, Mexico, Indonesia, Cambodia and Italy

Acquisitions & disposal

-0.0%

Acquisition of Protobacco in Colombia and disposal of Gauloises in Germany

Total*

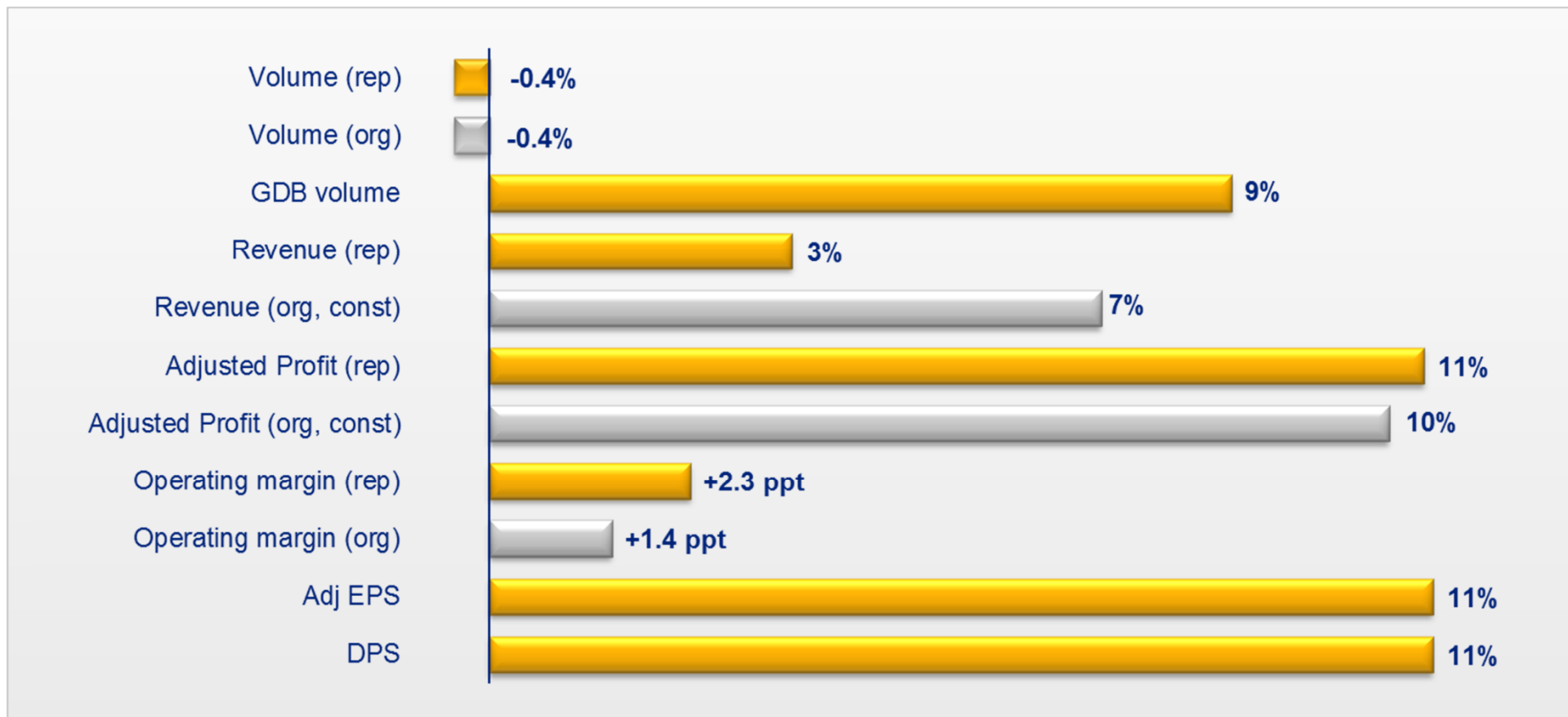
-0.4%

*as reported



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Met or exceeded KPIs in 2011



Global drive brands performance

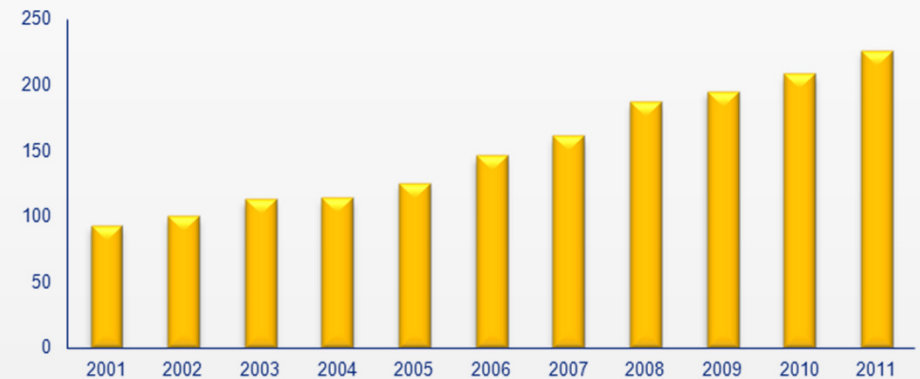


- Volume: 48 billion
- Share flat in T40
- Strong growth in Brazil, Romania and GCC
- Innovations account for over 50% of volume
- S. Korea impacted by price increase



- Volume: 67 billion, up 10%
- Share +0.3 ppt in T40
- Strong performance in Japan, Romania and eastern Europe
- Innovations driving growth

GDB VOLUMES 2001-2011



- GDB volume: 226 billion +9%
- International brands: 371 billion +4%
- Organic premium volume -0.1%
- Organic below-premium volume -0.5%

Global drive brands performance

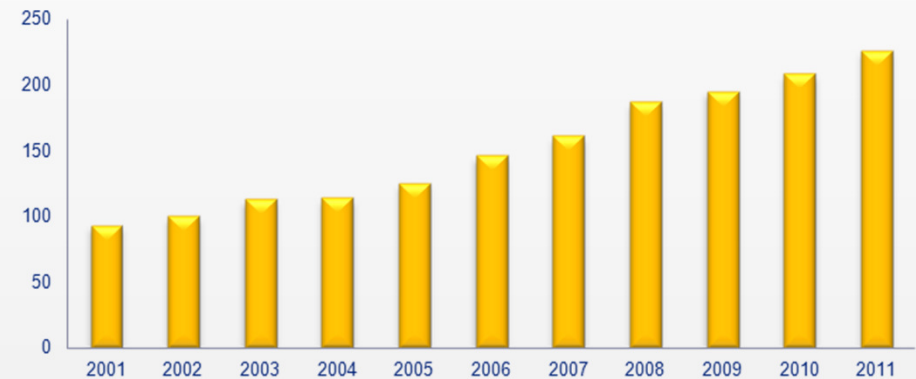


- Volume: 30 billion, up 14%
- Share +0.2 ppt in T40
- Growth in WE, South America
- Capsule markets driving growth

PALL MALL

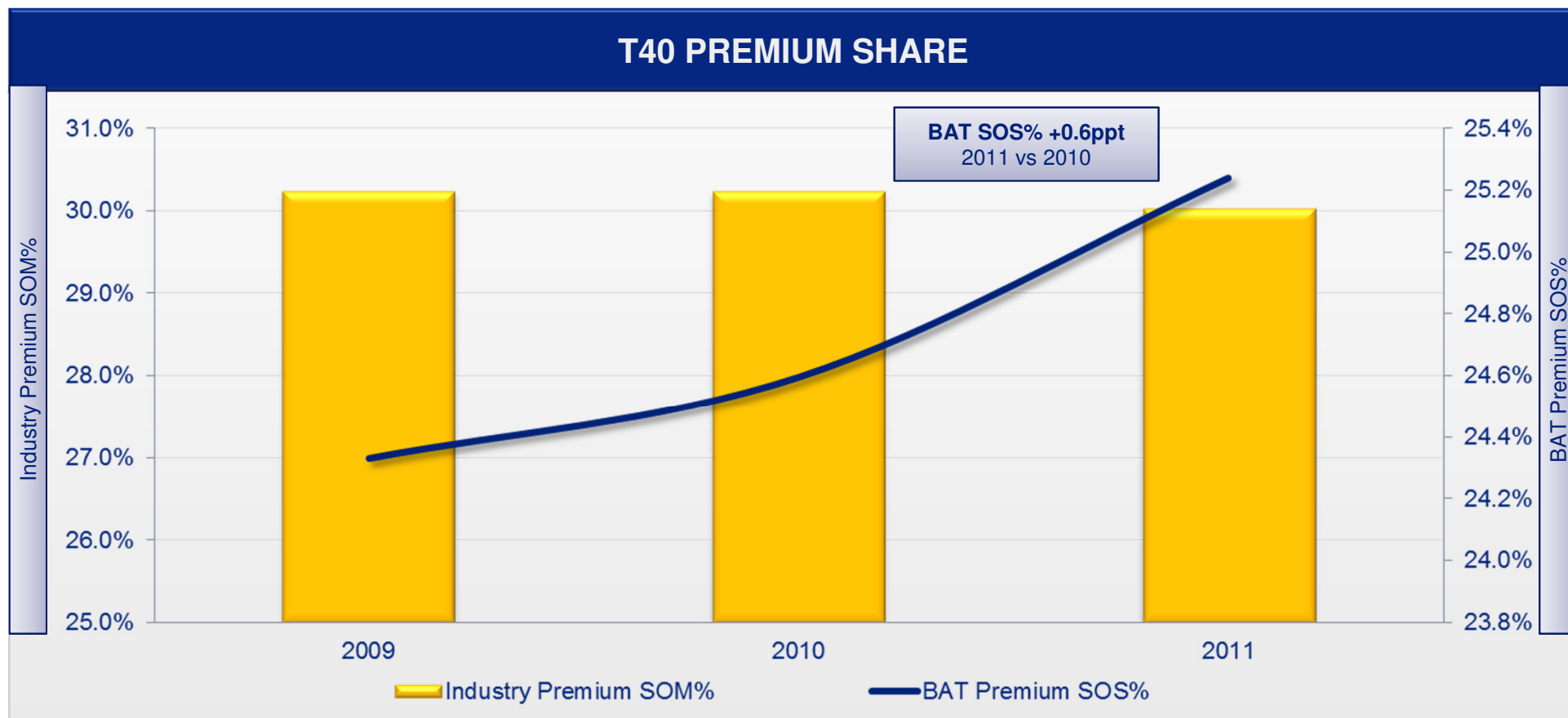
- Volume: 81 billion, up 11%
- Share +0.3 ppt in T40
- Strong performance in Pakistan, Turkey and Russia
- Declines in Mexico and Spain

GDB VOLUMES 2001-2011



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- International brands: 371 billion +4%
- Organic premium volume -0.1%
- Organic below-premium volume -0.5%

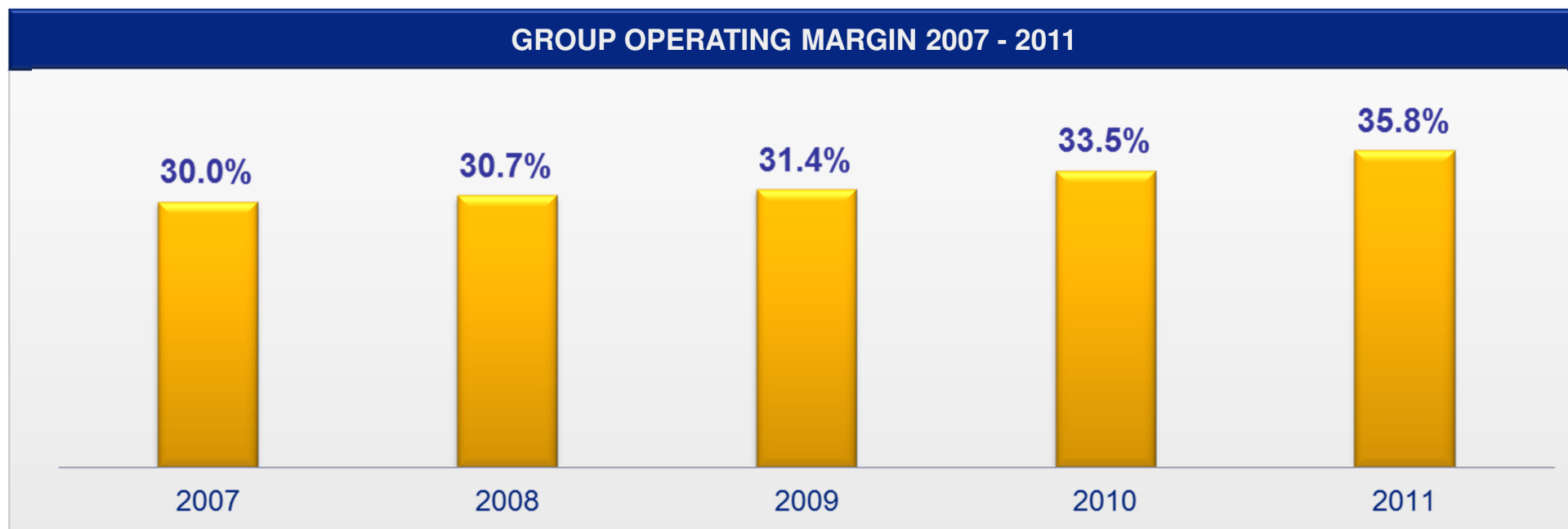
Growing premium share



Source : Company estimates, based on shipment data

Productivity programme

- 35% margin target achieved 1 year early
- Targeting 50 to 100 basis points improvement a year



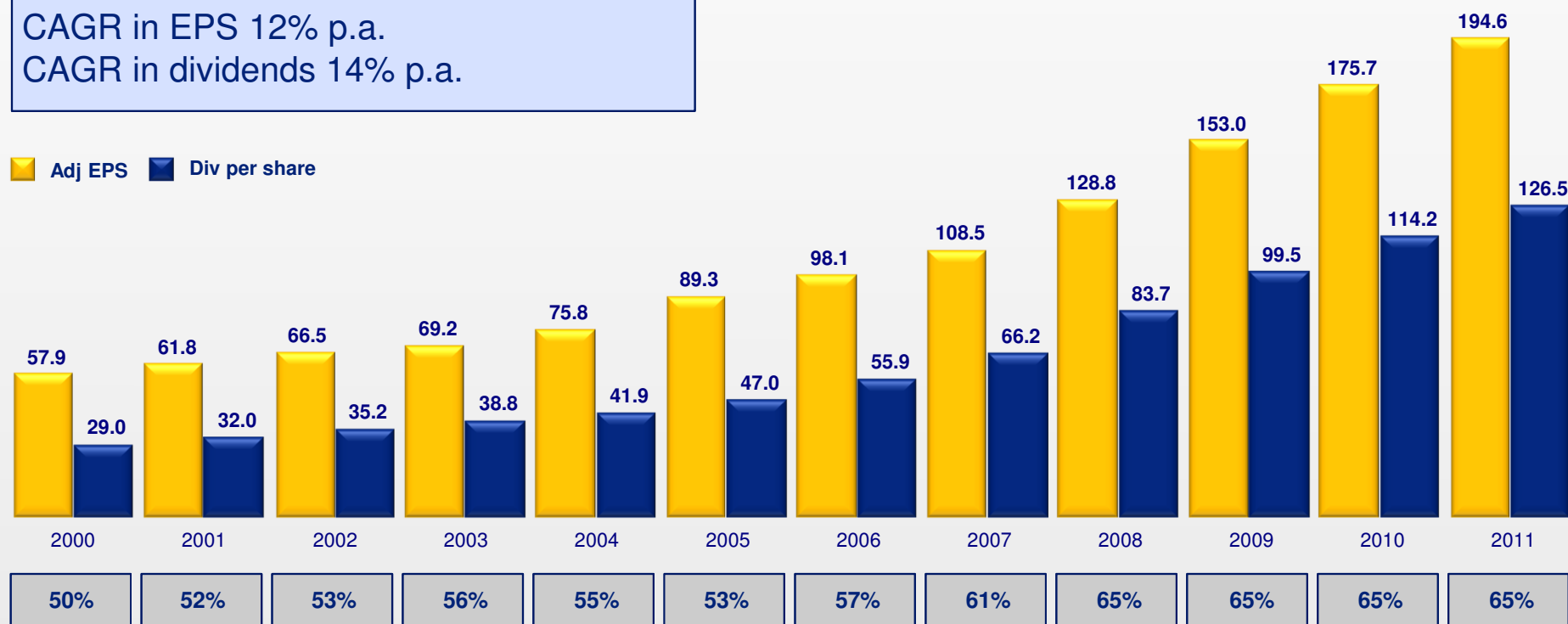


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High single figure targets delivered

CAGR in EPS 12% p.a.
CAGR in dividends 14% p.a.

Adj EPS Div per share

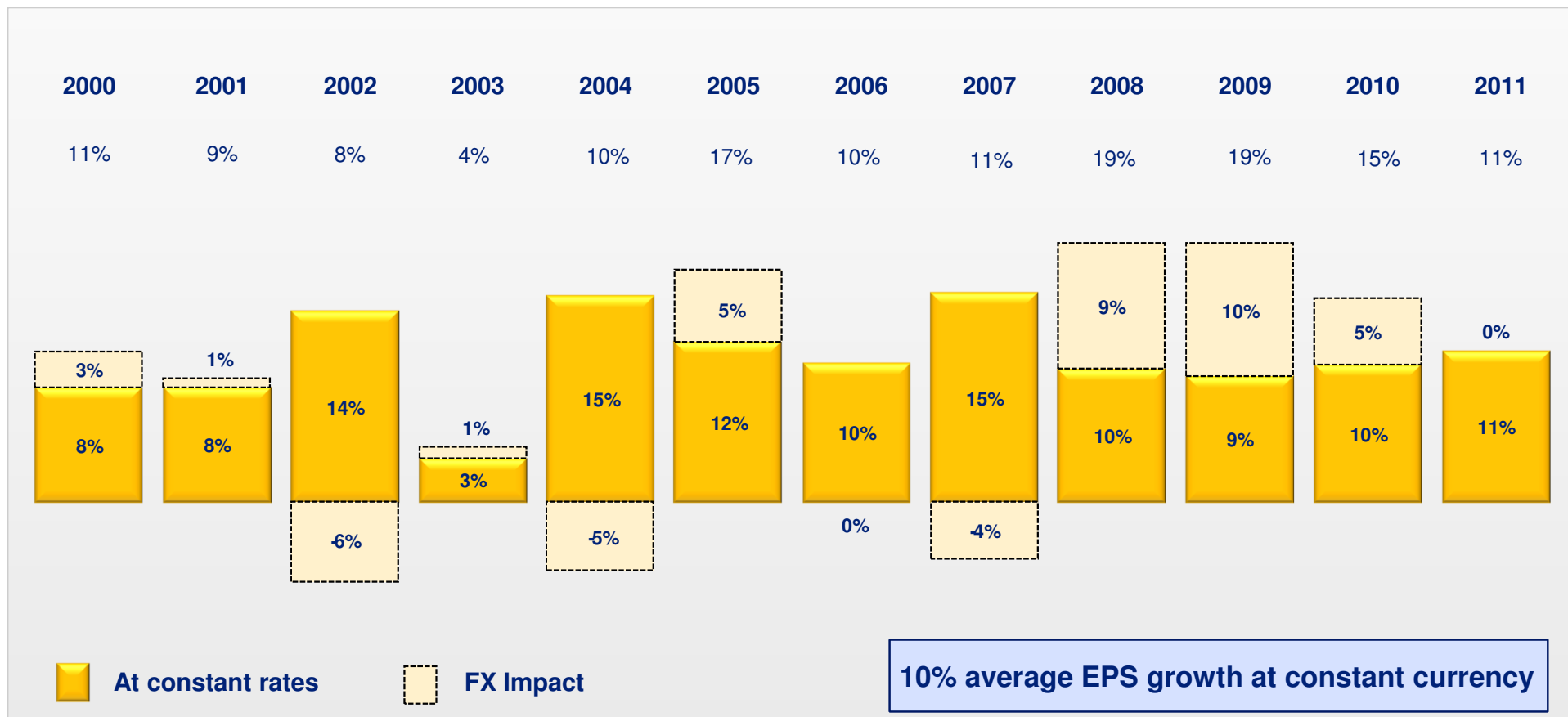


Payout ratio raised to 65%



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Consistent earnings per share growth



Source: Company's financial results as published

Strong Cash Flow



£mns, Current FX	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual
Operating cash flow	2,935	3,986	4,317	4,901	5,187
<i>Growth</i>	12%	36%	8%	14%	6%
Operating cash flow conversion rate	98%	107%	97%	98%	94%
Free cash flow	1,711	2,604	2,630	3,240	3,326
<i>Growth</i>	11%	52%	1%	23%	3%
Free cash flow per share (pence)	84	130	132	162	168
<i>Growth</i>	13%	55%	2%	23%	3%
Free cash flow per share to adjusted EPS	77%	101%	86%	92%	86%
Free cash flow to closing net debt	31%	26%	30%	41%	42%

Source: Company's financial results as published

FT Global 500 index: up to 52nd place





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