



**BRITISH AMERICAN
TOBACCO**

A large, abstract graphic element on the left side of the slide. It features a thick, dark blue brushstroke that curves upwards from the bottom left towards the center. Above it, a thinner, yellow brushstroke curves from the top left towards the center, following a similar path. The overall effect is dynamic and modern.

Morgan Stanley Consumer Retail Conference

New York

November 2008



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Ben Stevens
Finance Director



Agenda

- Overview of the Group
- Group strategy
 - Growth
 - Productivity
 - Responsibility
 - Winning organisation
- 2008 performance
- Summary
- Questions & answers

World's most international tobacco group



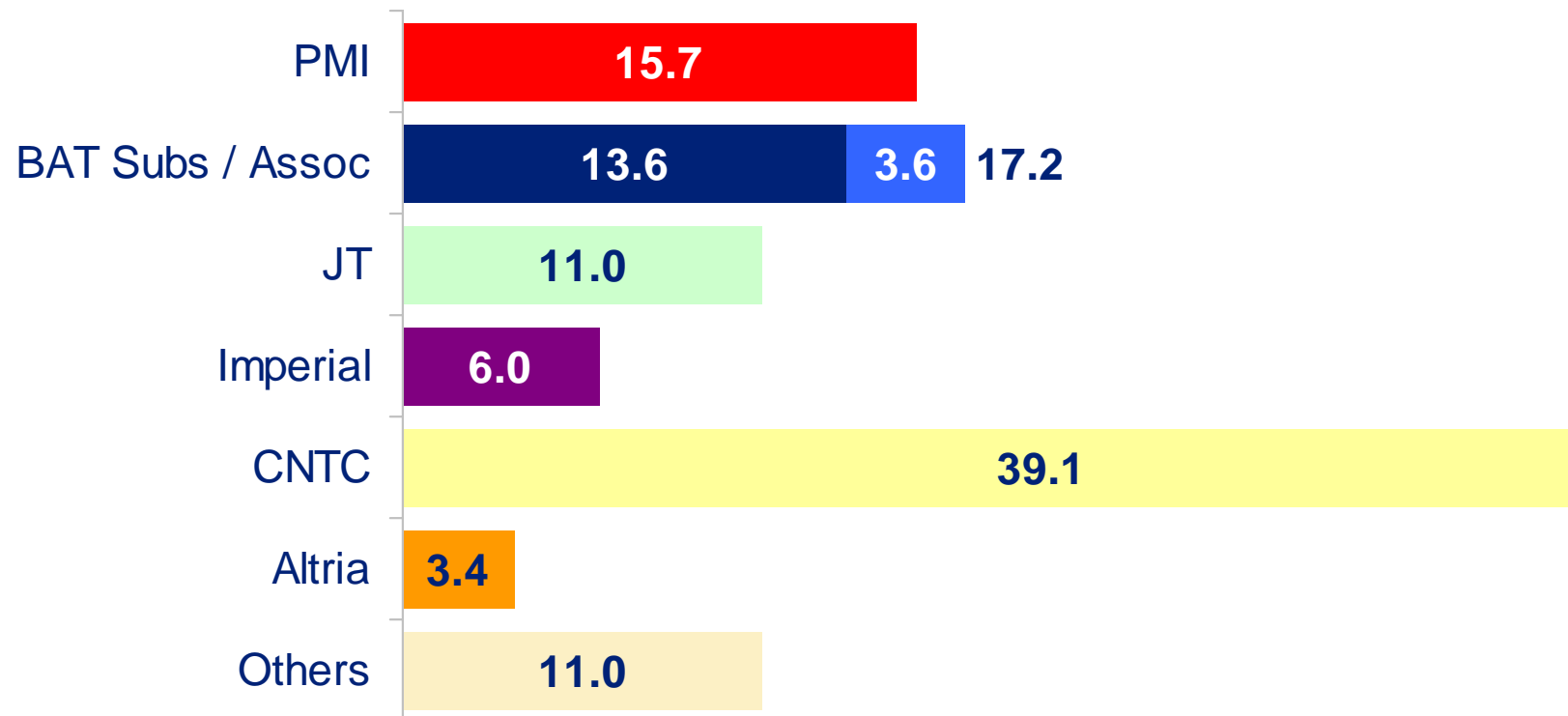
- Over 300 brands
- Focus on Global Drive Brands + Vogue & Viceroy
- 180 markets
- Leadership in over 50 markets
- Almost 54,000 employees
- \$42 bn gross turnover
- \$16 bn net turnover
- \$4.8 bn profit from operations
- Market capitalisation – currently number 7 in the UK



Major competitors



2007 World Market Share % (Proforma)



- On a proforma basis (i.e., adding in the full year impact of acquisitions), the Big 4 have a combined global market share of nearly 50%

Source: Company estimates and competitors' published data



Strategy for shareholder value



VISION

ACHIEVE
LEADERSHIP OF
THE GLOBAL
TOBACCO INDUSTRY

STRATEGY

GROWTH

PRODUCTIVITY

RESPONSIBILITY

WINNING ORGANISATION



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Growth strategy

Increase our volume and value share of the global tobacco market through organic growth and M&A

**Key
Segments
and Brands**

Innovation

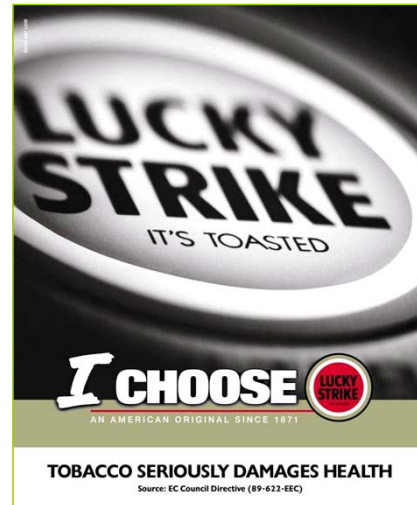
**Priority
Markets**

**Mergers and
Acquisitions**

BAT Global Drive Brands



- Masculine
- Full Flavour
- ASU30



- Premium Lights
- ASU30
- Innovative product (3-Tek, Mintek, Nanotek)

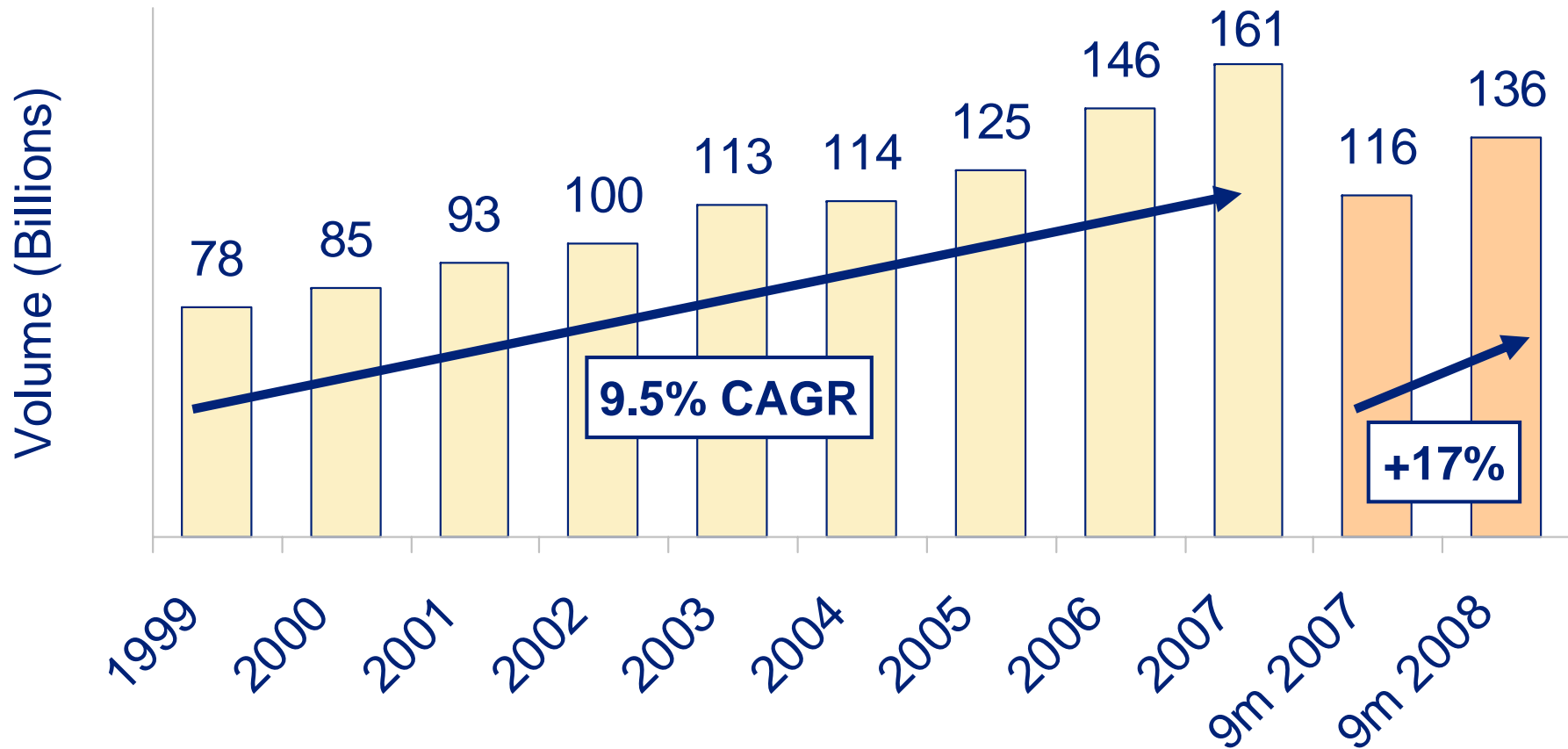


- Perfectionist in tobacco
- Top end of the tobacco spectrum
- Modern classic
- Full Flavour/Lights

- International VFM
- ATUU30/Unisex
- Total Tobacco Satisfaction via FF/Lights, Menthol, Superslims, OTP



Global Drive Brands



- Global drive brands sales volumes have grown consistently

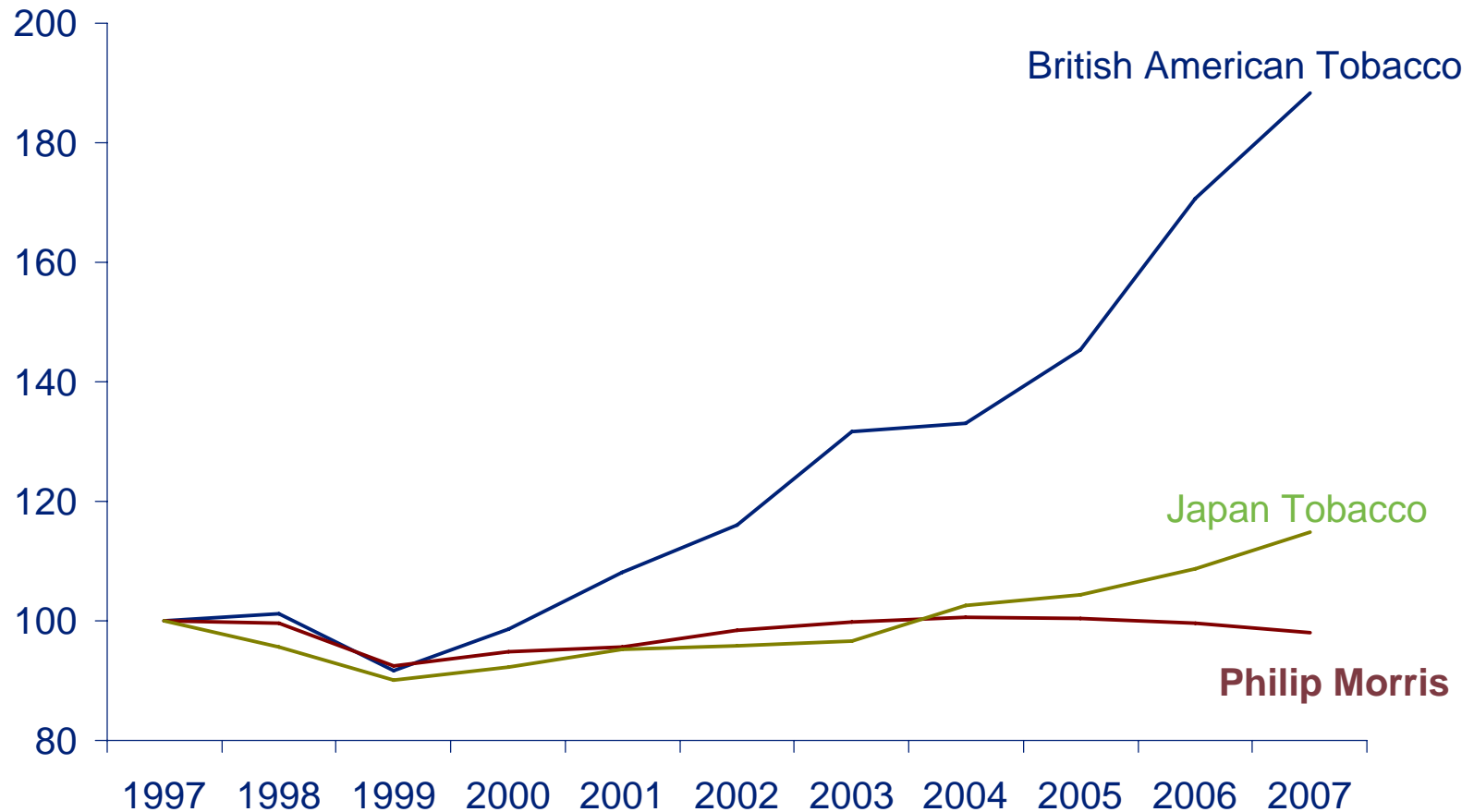
Source: Company's financial results



Global Drive Brands: volume growth index



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Advertising Principles → International Marketing Standards
Base 100: 1997

Source: Company estimates and competitors' published data

Innovation

- There will be a continuous emphasis on developing and rolling out brand and product innovations, focusing on GDBs:
 - formats e.g. *Kent Nanotek*
 - packaging *Re-sealable*
 - menthol *Kool Boost*
 - charcoal *Kent 3Tek*
 - social acceptance *Vogue Arome*
 - limited edition packs *Lucky Strike Window Pack*



Priority markets

- Eastern Europe
- Far East
- North Africa
- Middle East



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Mergers & acquisitions

- Looking for deals that make strategic and financial sense
- Likely to be bolt on rather than transformational deals
- During 2008
 - Tekel cigarette assets and
 - Scandanavisk Tobakskompagni cigarette business, certain snus and RYO interests



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Productivity strategy

Effectively deploy our global resources to increase profits and generate funds to reinvest in our business

**Smart Cost
Management**

**Marketing
Efficiency**

**Capital
Effectiveness**

Productivity initiatives 2003 – 2007



Cumulative savings, £m	2003	2004	2005	2006	2007
Overheads & indirects	64	153	256	355	455
Supply chain	27	120	226	374	551
Total	91	273	482	729	1,006

Factory Footprint	2003	2004	2005	2006	2007
Cigarette factories	72	67	64	52	47
Countries	61	58	55	45	40



Annualised savings of £1bn by 2007

Productivity savings goal: 2008 – 2012

- Productivity savings a significant driver of profit growth
- Some drop through to the bottom line
- Balance reinvested in the business
- Target of a further £800m by 2012
 - Savings from supply chain, overheads & indirects
 - Supply chain efficiencies
 - Back office integration
 - Management structures

Earnings to Cash



	2004	2005	2006	2007	Total '04 - '07
Attributable Profit (£ bn)	2.8	1.8	1.9	2.1	8.6
Adjusted Earnings (£ bn)	1.7	1.9	2.0	2.2	7.8
Free Cash Flow (£ bn)	1.3	1.6	1.5	1.7	6.1
FCF to Adj. Earnings	81%	84%	76%	77%	78%

- In the last 4 years, the cumulative ratio of free cash flow to net profit before investing activities was 78%

Source: Company's financial results

Use of funds



£ bn	2003	2004	2005	2006	2007	Total '03 - '07
Free Cash Flow	1.6	1.3	1.6	1.5	1.7	7.7
Dividends Paid	(0.8)	(0.8)	(0.9)	(1.0)	(1.2)	(4.7)
Share buy-back	(0.7)	(0.5)	(0.5)	(0.5)	(0.8)	(3.0)
Sub Total	0.1	(0.1)	0.2	0.0	(0.3)	0.0
Other net flows	(1.9)	0.2	(0.1)	0.0	0.2	(1.6)
Net cash flows	(1.8)	0.1	0.1	0.0	(0.1)	(1.7)

- In the last five years, all free cash flow (£7.7bn) has been returned to shareholders through dividends and share buy backs.

Financial policies

- Board commitment to investment grade ratings
- Liquidity: to maintain minimum of £1bn in cash and committed facilities
- Maturity profile has an average maturity of 5 years
- Gross interest cover targeted between 5 and 9 times
- Dividend policy is to distribute 65% of long term sustainable earnings from 2008
- Share repurchase programme target was £750m in 2007 but currently scaled back to £400m



Financing plan / liquidity

- £1.75bn committed Group revolving credit facility
- Strong cash flows and cash balances
- Smooth maturity profile
- Almost all debt is unsecured with a limited use of leasing
- Credit ratings

	Moody's	S&P	Fitch
Long term rating	Baa1	BBB+	BBB+
Short term rating	P-2	A-2	F2
Outlook	Stable	Stable	Stable



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Responsibility strategy

Continue to balance our commercial objectives with the expectations of a broad range of stakeholders, thus ensuring a sustainable business

**Business
Principles**

**Standards of
Business
Conduct**

**Sensible
Regulation**

**Harm
Reduction**

Winning organisation strategy



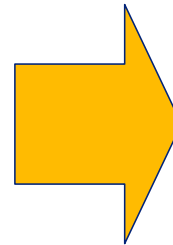
Ensure we have the right people and the right working environment to deliver our Vision.

Great Place
to Work

Outstanding
People

From

A loose federation



To

An integrated
global enterprise

Future expectations

Top line growth

- Volume growth
- Pricing
- Mix improvements

Productivity savings

- Overheads
- Indirects
- Supply chain

Operating profit growth of 6% p.a. on average

Financial efficiencies

- Share buy backs
- Others

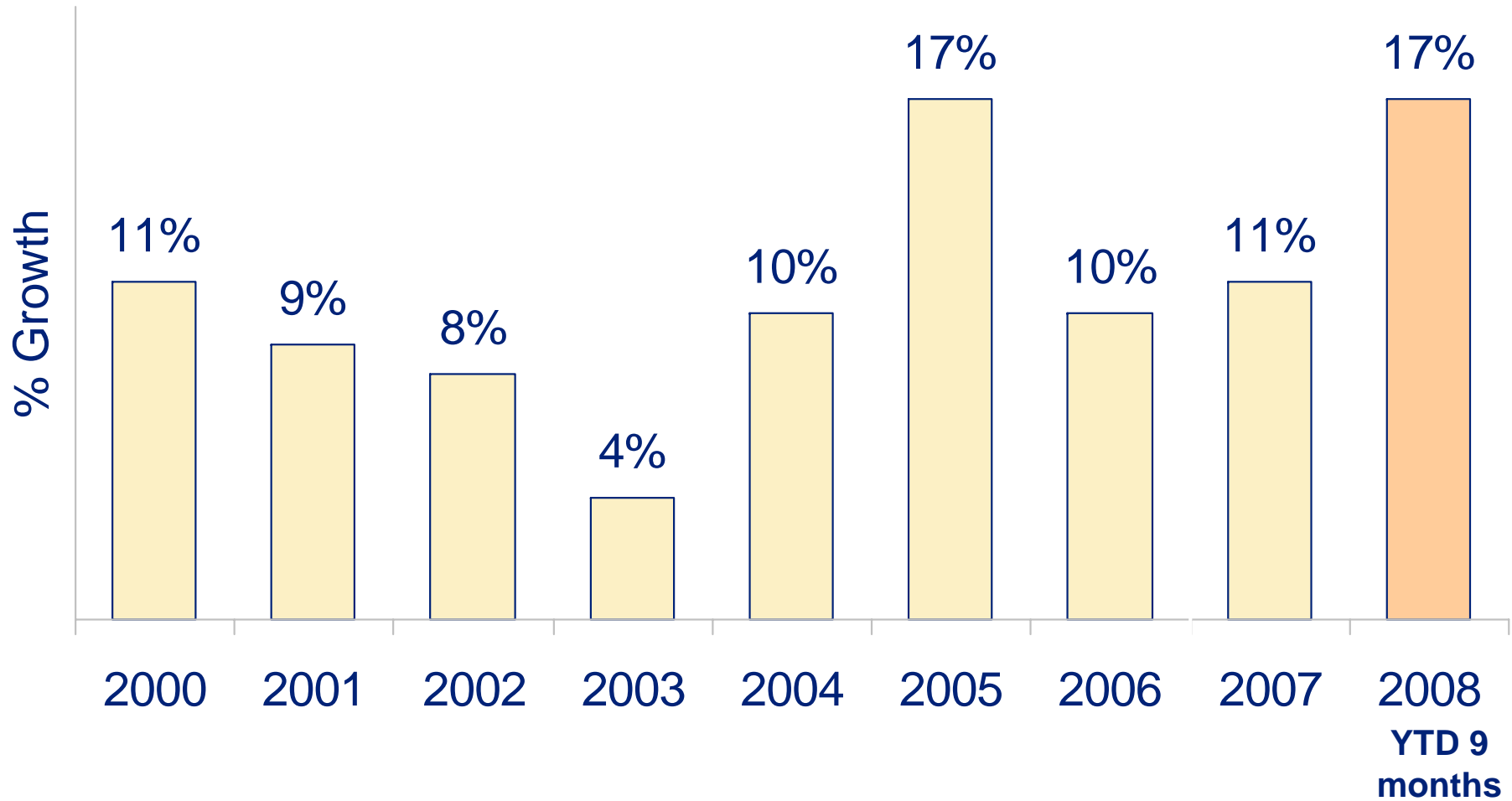
High single digit earnings growth

Distributing 65% of sustainable net earnings as dividends (with balance of free cash flow for strategic acquisitions or share buy-backs, subject to maintaining an acceptable credit rating)

* Based on internal estimates over the medium to long term

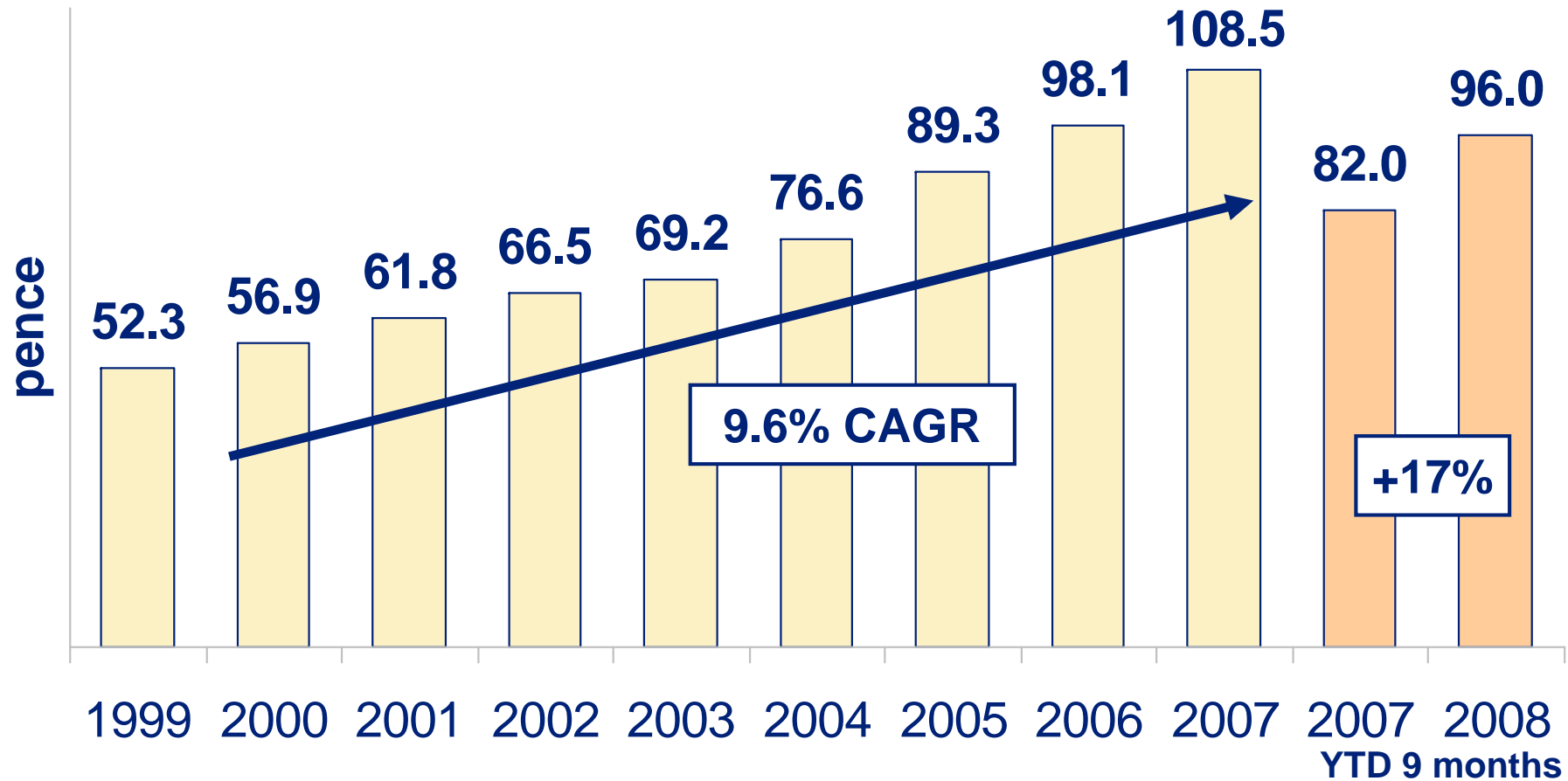


Earnings per share growth



Source: Company's financial results

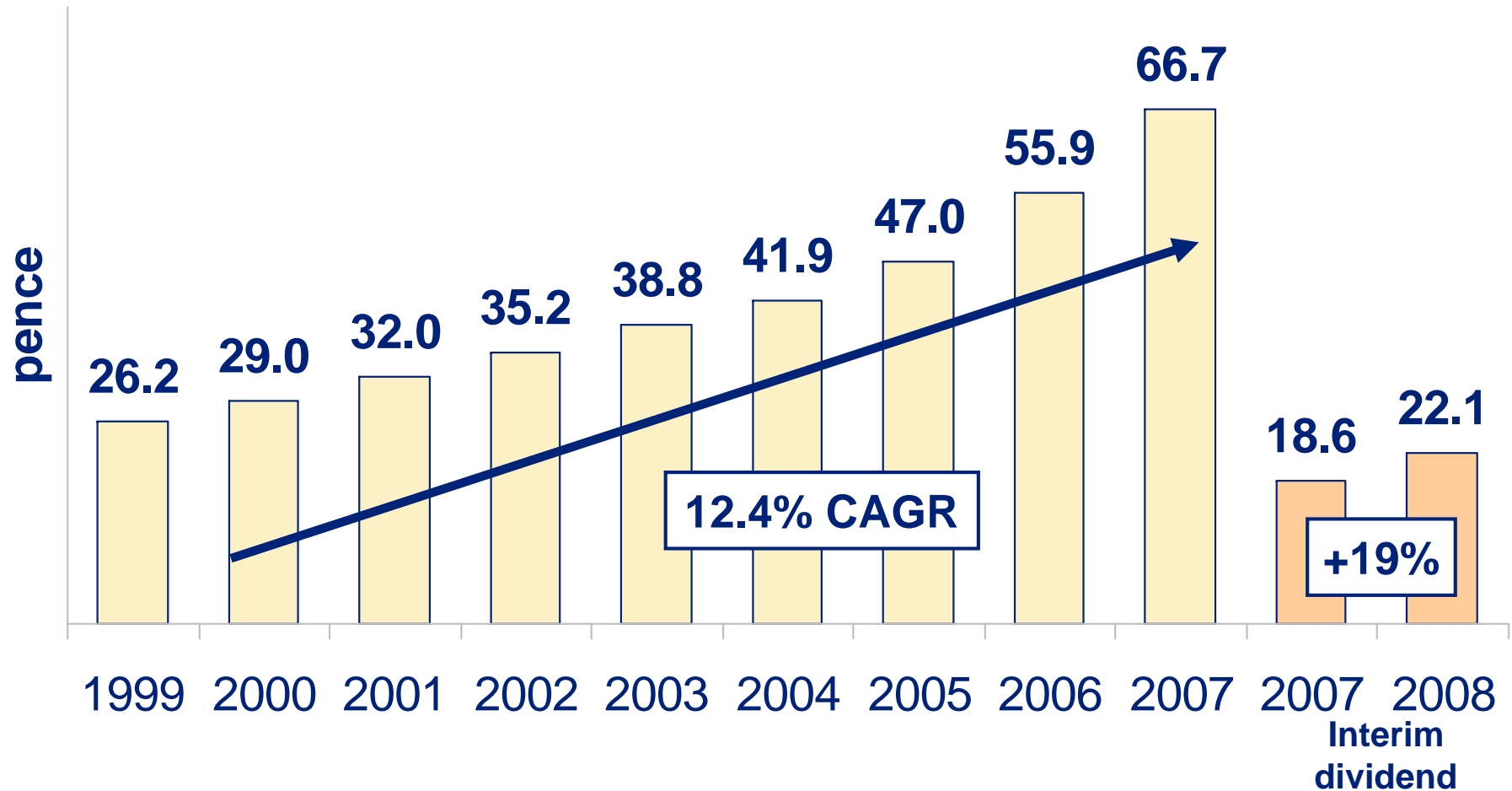
Earnings per share



The target of high single figure earnings growth has been delivered

Source: Company's financial results

Dividends per share



Targeting a 65% payout ratio in 2008

Source: Company's financial results



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In previous economic downturns...

- Tobacco is not recession proof...
- ... but recession resistant
- Our geographic diversity mitigates risk
- Consumers are loyal to their brands
- Switching where they buy not what they buy
- High unemployment may lead to changing behaviour
- Balanced portfolio covering consumer price points



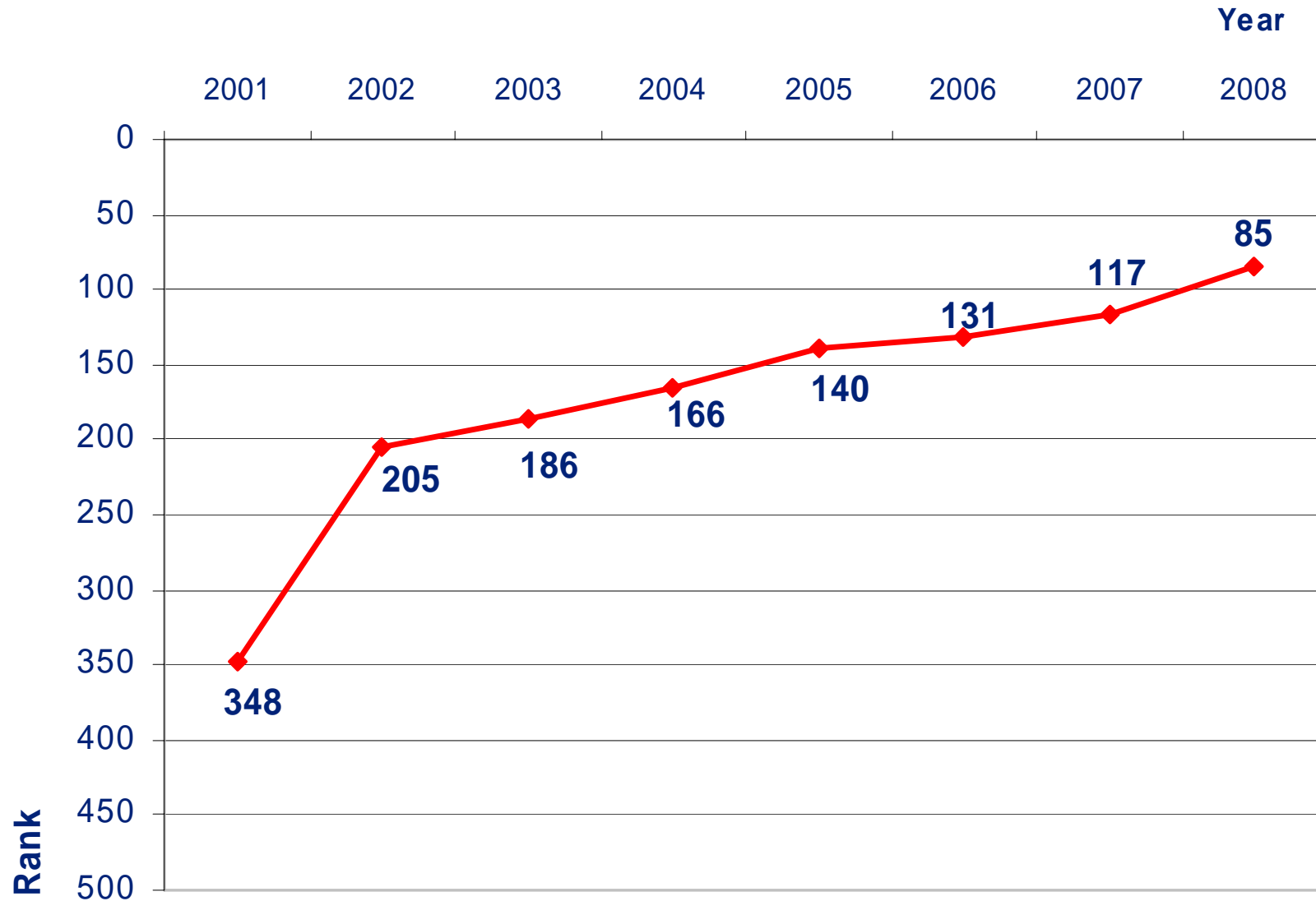
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Nine months 2008 headlines

■ Sales volume		
- Group	524 bn	+4%
- Global drive brands	136 bn	+17%
■ Revenue		
- As reported	£8,704m	+19%
- Constant currencies	£7,944m	+9%
■ Profit from operations (excluding exceptionals)		
- As reported	£2,755m	+20%
- Constant currencies	£2,520m	+10%
■ Adjusted diluted EPS	95.97p	+17%



FT Global 500* – BAT progression



*By market capitalisation as at end of March each year

Source: Financial Times

In summary:

- Significant global business
- Geographically diversified to mitigate risk
- Leadership position in more than 50 markets
- Clearly articulated strategy that works
- Powerful brand portfolio
- Innovative business developing new propositions
- Improving margins through brand mix and productivity strategies
- Highly cash generative with a strong balance sheet
- Track record of consistent performance
- Focused on delivering great shareholder value



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