Agenda

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

ACHIEVE LEADERSHIP OF THE GLOBAL TOBACCO INDUSTRY

GROWTH
- Organic
- Innovations
- Mergers & Acquisitions

PRODUCTIVITY
- Smart cost management
- Marketing efficiency
- Capital effectiveness

RESPONSIBILITY
- Business principles
- Standards of business conduct

WINNING ORGANISATION
- Great Place to Work
- Outstanding People
Agenda

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BAT’s Asia Pacific Region

**Our areas and markets**

- **South Korea**
- **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

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

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

Malaysia: Minimum pricing from 1st January 2010.

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

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

HK/Macau and Mongolia: Ad hoc excise increases

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

Source: 2008 Regional Fact Sheets
Impressive result in Asia Pacific over last 5 years (incl Japan & Bentoel)

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.

CAGR (05-09): Volume (+3.1%), NTO (+10.0%), UOP (+18.0%)
Asia Pacific is a major contributor to the Group

**Volume (2009)**

- **AME**: 18%
- **E Europe**: 18%
- **W Europe**: 18%
- **ASPAC**: 25%

**Profits (2009)**

- **AME**: 16%
- **E Europe**: 9%
- **W Europe**: 22%
- **ASPAC**: 26%

**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

<table>
<thead>
<tr>
<th>Population</th>
<th>Exc China</th>
<th>Inc China</th>
</tr>
</thead>
<tbody>
<tr>
<td>~2.4 bn</td>
<td>~3.8 bn</td>
<td></td>
</tr>
<tr>
<td>% of Global Pop.</td>
<td>~36 %</td>
<td>~56%</td>
</tr>
</tbody>
</table>

Source: IMF, October 2009

Asia Pacific GDP

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

Average Unemployment 2009-2010

Source: Frontier Strategy Group
Vast wealth disparities across the region, reflected in pricing levels

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

<table>
<thead>
<tr>
<th></th>
<th>1st Half 2009</th>
<th>2nd Half 2009</th>
<th>2010 Year-to-date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td></td>
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</tr>
<tr>
<td>New Zealand</td>
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<tr>
<td>South Pacific</td>
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<tr>
<td>Malaysia</td>
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<tr>
<td>Singapore</td>
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<tr>
<td>Japan</td>
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<tr>
<td>South Korea</td>
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<tr>
<td>Pakistan</td>
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<td></td>
<td></td>
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<tr>
<td>Bangladesh</td>
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<td></td>
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<tr>
<td>Sri Lanka</td>
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<td>Vietnam</td>
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<td>Cambodia</td>
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<tr>
<td>Mongolia</td>
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<td></td>
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<tr>
<td>Taiwan</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong/Macau</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>GTR</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Agenda

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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
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

Source: Statistics Bureau, Cabinet office and BATJ estimate
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
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
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
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

![Graph showing trend of Industry and Excise from 2000 to 2009 with percentage changes and values for each year.]

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

Data Source: BATJ Estimate
BAT A CONSISTENT SUPERIOR PERFORMER

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</thead>
<tbody>
<tr>
<td>Volume Performance</td>
<td>Index 100</td>
<td>103</td>
<td>1% ▲</td>
<td>Index 100</td>
<td>99</td>
<td>(0%) ▼</td>
<td>Index 100</td>
<td>100</td>
<td>(0%) ▼</td>
</tr>
<tr>
<td>vs. Industry</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>SOC</td>
<td>9.3%</td>
<td>10.5%</td>
<td>0.3% ▲</td>
<td>24.7%</td>
<td>24.0%</td>
<td>(0.2%) ▼</td>
<td>65.6%</td>
<td>65.0%</td>
<td>(0.1%) ▼</td>
</tr>
<tr>
<td>Net Turnover</td>
<td>Index 100</td>
<td>103</td>
<td>1% ▲</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Operating Profit</td>
<td>Index 100</td>
<td>144</td>
<td>9% ▲</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- BAT shows resilience, outperforming the industry
- Focused strategy delivering superior performance

Data Source: BATJ Estimate
SOLID PERFORMANCE FOR BAT …
despite challenging business environment

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

Data Source: BATJ Estimate
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

Segment trend

<table>
<thead>
<tr>
<th>Year</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>23.0%</td>
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<tr>
<td>2009</td>
<td>21.4%</td>
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BATJ SOS

<table>
<thead>
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<th>Year</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>10.1%</td>
</tr>
<tr>
<td>2009</td>
<td>14.4%</td>
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</tbody>
</table>

( ) indicates index vs. total share

<table>
<thead>
<tr>
<th>Size increase vs. 2005</th>
<th>CAGR ('05 – '09)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1.6ppt</td>
<td>-1.8%</td>
</tr>
</tbody>
</table>

Data Source: BATJ Estimate
BAT OVER-PERFORMING IN MENTHOL

Segment trend

- 2005: 18.4%
- 2009: 22.8%

BATJ SOS

- 2005: 15.6%
- 2009: 20.1%

( ) 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

- 1st world capsule
- 1st world menthol thread
- Packaging innovation
- 1st flavour capsule
- 1st flavour menthol
BAT GROWING IN ULTRA LOW TAR

**Segment trend**

<table>
<thead>
<tr>
<th>Year</th>
<th>Index Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>27.1%</td>
</tr>
<tr>
<td>2009</td>
<td>32.7%</td>
</tr>
</tbody>
</table>

**BATJ SOS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Index Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>12.2%</td>
</tr>
<tr>
<td>2009</td>
<td>13.6%</td>
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</tbody>
</table>

( ) indicates index vs. total share

<table>
<thead>
<tr>
<th>Size increase vs. 2005</th>
<th>CAGR ('05 – '09)</th>
</tr>
</thead>
<tbody>
<tr>
<td>+5.6ppt</td>
<td>+4.8%</td>
</tr>
</tbody>
</table>

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

Data Source: BATJ Estimate
BAT OVER-PERFORMING IN PREMIUM

Segment trend

2005: 22.9%
2009: 24.6%

BATJ SOS

2005: 12.7%
2009: 16.6%

( ) indicates index vs. total share

<table>
<thead>
<tr>
<th>Size increase vs. 2005</th>
<th>CAGR ('05 – '09)</th>
</tr>
</thead>
<tbody>
<tr>
<td>+1.7ppt</td>
<td>+1.8%</td>
</tr>
</tbody>
</table>

Data Source: BATJ Estimate
UNTAPPED OPPORTUNITY IN FEMALE SEGMENT

Segment trend

- 2005: 5.1%
- 2009: 5.8%

BATJ SOS

- 2005: 9.7%
- 2009: 7.7%

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

Data Source: BATJ Estimate
OVER-TRADING IN MOST IMPORTANT CHANNEL

**Channel size trend**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
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<tr>
<td>2005</td>
<td>30.9%</td>
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<tr>
<td>2009</td>
<td>54.8%</td>
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</table>

**BATJ SOS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>11.4%</td>
</tr>
<tr>
<td>2009</td>
<td>12.4%</td>
</tr>
</tbody>
</table>

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

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

- 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

<table>
<thead>
<tr>
<th></th>
<th>SOM increase vs. 2009</th>
<th>CAGR ('05 – ’09)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KOOL</td>
<td>+1.3 ppt</td>
<td>+19.5%</td>
</tr>
<tr>
<td>Marlboro</td>
<td>+0.7 ppt</td>
<td>+3.0%</td>
</tr>
</tbody>
</table>

Data Source: BATJ Estimate
ONLY PREMIUM BRAND TO GROW VOLUME

<table>
<thead>
<tr>
<th></th>
<th>Growth rate vs. 2009</th>
<th>CAGR ('05 – ’09)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KOOL</td>
<td>+68.2%</td>
<td>+13.9%</td>
</tr>
<tr>
<td>Marlboro</td>
<td>-7.1%</td>
<td>-1.8%</td>
</tr>
</tbody>
</table>

Data Source: BATJ Estimate
KENT IS A KEY PLAYER IN LOW TAR

Data Source: BATJ Estimate

Source: TIOJ
KENT GROWTH PLATFORM
A High-Tech, Low Tar brand

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

TASTEK

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

MINTEK

- 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

CONSUMER INSIGHTS

MARKET TRENDS

EXTERNAL PARTNERS

BRAND STRATEGY
Growth
- Consumer, Segments
- Brand Portfolio
- Leader in Innovation
- World class TM&D

Winning Organisation
Talent, Capability, Culture
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
INNOVATION, BRANDS, CONSUMERS
DRIVING MARGINS
TALENT, CULTURE, ALIGNMENT
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