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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)

- **PMI**: 15.7
- **BAT Subs / Assoc**: 13.6 (3.6) 17.2
- **JT**: 11.0
- **Imperial**: 6.0
- **CNTC**: 39.1
- **Altria**: 3.4
- **Others**: 11.0

- 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
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 sales volumes have grown consistently by 9.5% CAGR from 1999 to 2008. Source: Company’s financial results.
Global Drive Brands: volume growth index

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
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 Tobakscompagni cigarette business, certain snus and RYO interests
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

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overheads &amp; indirects</td>
<td>64</td>
<td>153</td>
<td>256</td>
<td>355</td>
<td>455</td>
</tr>
<tr>
<td>Supply chain</td>
<td>27</td>
<td>120</td>
<td>226</td>
<td>374</td>
<td>551</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>91</td>
<td>273</td>
<td>482</td>
<td>729</td>
<td>1,006</td>
</tr>
</tbody>
</table>

#### Factory Footprint

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cigarette factories</td>
<td>72</td>
<td>67</td>
<td>64</td>
<td>52</td>
<td>47</td>
</tr>
<tr>
<td>Countries</td>
<td>61</td>
<td>58</td>
<td>55</td>
<td>45</td>
<td>40</td>
</tr>
</tbody>
</table>

Annualised savings of £1bn by 2007

Source: Company data
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

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attributable Profit (£ bn)</td>
<td>2.8</td>
<td>1.8</td>
<td>1.9</td>
<td>2.1</td>
<td>8.6</td>
</tr>
<tr>
<td>Adjusted Earnings (£ bn)</td>
<td>1.7</td>
<td>1.9</td>
<td>2.0</td>
<td>2.2</td>
<td>7.8</td>
</tr>
<tr>
<td>Free Cash Flow (£ bn)</td>
<td>1.3</td>
<td>1.6</td>
<td>1.5</td>
<td>1.7</td>
<td>6.1</td>
</tr>
<tr>
<td>FCF to Adj. Earnings</td>
<td>81%</td>
<td>84%</td>
<td>76%</td>
<td>77%</td>
<td>78%</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>Moody’s</th>
<th>S&amp;P</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term rating</td>
<td>Baa1</td>
<td>BBB+</td>
<td>BBB+</td>
</tr>
<tr>
<td>Short term rating</td>
<td>P-2</td>
<td>A-2</td>
<td>F2</td>
</tr>
<tr>
<td>Outlook</td>
<td>Stable</td>
<td>Stable</td>
<td>Stable</td>
</tr>
</tbody>
</table>
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

- 2000: 11%
- 2001: 9%
- 2002: 8%
- 2003: 4%
- 2004: 10%
- 2005: 17%
- 2006: 10%
- 2007: 11%
- 2008: 17%

Source: Company’s financial results
The target of high single figure earnings growth has been delivered.

Source: Company’s financial results
Dividends per share

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividends per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>26.2</td>
</tr>
<tr>
<td>2000</td>
<td>29.0</td>
</tr>
<tr>
<td>2001</td>
<td>32.0</td>
</tr>
<tr>
<td>2002</td>
<td>35.2</td>
</tr>
<tr>
<td>2003</td>
<td>38.8</td>
</tr>
<tr>
<td>2004</td>
<td>41.9</td>
</tr>
<tr>
<td>2005</td>
<td>47.0</td>
</tr>
<tr>
<td>2006</td>
<td>55.9</td>
</tr>
<tr>
<td>2007</td>
<td>66.7</td>
</tr>
<tr>
<td>2008</td>
<td>18.6</td>
</tr>
</tbody>
</table>

Targeting a 65% payout ratio in 2008

Interim dividend +19%

Source: Company’s financial results
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
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