AGENDA

Strategy in Action

- Korea
- The Cigarette Market
- A Decade of Success
- The Strategy
- Summary and Conclusion
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Korea

Population: 48.7 million
Area: 98,000 km² (Size of Hungary)
Density: 50% Seoul Area
GDP per Capita: US$21,000 (2009), US$11,000 (2000)
Inflation: 3.1% (2009)
Trade / Growth: Export driven 35% of GDP from export (Japan = 16%)

Source: OECD Database, Korea National Statistical Office Database, BMI
Economic Outlook – Strong Performance

- **$820 Billion GDP in 2009**
  (15th biggest economy)

- **Fastest recovery amongst OECD**
  - Won appreciation
  - Exports are recovering
  - FDI is coming back

- **Korea becoming a global power**
  - Samsung / Hyundai
  - UAE nuclear power reactors deal ($40 bil)
  - G20 in November 2010
  - Pitching for Winter Olympics and Football World cup in 2018 / F1 in 2010
  - FTA’s

- **Concerns**
  - Consumer debt ($640 bil)
  - Global economy
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A Dynamic Cigarette Market

Market size and price evolution

CAGR: -1.0%

<table>
<thead>
<tr>
<th>Year</th>
<th>Billions</th>
<th>Pack Price (KRW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>104.9</td>
<td>1600</td>
</tr>
<tr>
<td>2001</td>
<td>98.1</td>
<td>1600</td>
</tr>
<tr>
<td>2002</td>
<td>91.3</td>
<td>1600</td>
</tr>
<tr>
<td>2003</td>
<td>96.9</td>
<td>1600</td>
</tr>
<tr>
<td>2004</td>
<td>106.8</td>
<td>1600</td>
</tr>
<tr>
<td>2005</td>
<td>82.1</td>
<td>2500</td>
</tr>
<tr>
<td>2006</td>
<td>87.5</td>
<td>2500</td>
</tr>
<tr>
<td>2007</td>
<td>91.6</td>
<td>2500</td>
</tr>
<tr>
<td>2008</td>
<td>94.8</td>
<td>2500</td>
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<tr>
<td>2009</td>
<td>94.6</td>
<td>2500</td>
</tr>
<tr>
<td>2010</td>
<td>94.4</td>
<td>2500</td>
</tr>
</tbody>
</table>

The demand for international brands is growing

<table>
<thead>
<tr>
<th>Year</th>
<th>Int'l</th>
<th>Local</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>10%</td>
<td>90%</td>
</tr>
<tr>
<td>2005</td>
<td>26%</td>
<td>74%</td>
</tr>
<tr>
<td>2009</td>
<td>37%</td>
<td>63%</td>
</tr>
<tr>
<td>2010</td>
<td>42%</td>
<td>58%</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Size</th>
<th>Adult Incidence</th>
<th>Consumption per day</th>
<th>Switching</th>
<th>Superslims</th>
<th>Premium Segment size</th>
<th>Lights Segment Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>82.2 billion</td>
<td>21.3%</td>
<td>19.3 sticks</td>
<td>23%</td>
<td>36%</td>
<td>65%</td>
<td>22%</td>
</tr>
<tr>
<td>2009</td>
<td>94.7 billion</td>
<td>22%</td>
<td>19.5 sticks</td>
<td>21%, highest globally</td>
<td>38%, largest globally</td>
<td>75%</td>
<td>34%, lightest globally</td>
</tr>
</tbody>
</table>

* Excl. China, India and USA

Regulatory Environment

1997:
- PPS Restrictions
- Restrictions for use of Vending Machines
- Advertisement restrictions

2001:
- Text Health Warning on Advertisements

2002:
- Adult Verification for Vending machines

2003:
- Further PPS Restrictions
- Text Health Warning on Packs

2004:
- Excise Increase by 500 Won

2005:
- Korea Ratified FCTC
- Graphic Health Warnings
- Ban of Descriptors
- Advertisement Restrictions

2008:
- Proposals in the National Assembly

2009:
- Labeling Carcinogen contents on the pack
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Superior understanding of the consumer resulted in outstanding growth for BAT

Source: Industry Shipments
Consistent evolution in Dunhill has resulted in 15% share growth over the last 10 years.

- **2000**: Launch Dunhill Lights Menthol
- **2001**: DHL LEP – World cup celebration
- **2002**: Launch Top Leaf / Cigar Flagship store
- **2003**: Launch Dunhill Balance Orchestra – Pack modification
- **2004**: Focus – Pack Change Launch 0.1mg for Dunhill KS&SS
- **2005**: Launch Fine Cut SS
- **2006**: Tribute W1&2 LEP
- **2007**: Re-launch D-Series
- **2008**: Launch Fine Cut 1MG Menthol & 6mg KS Menthol
- **2009**: 1907 Flagship store – My Mixture
A very successful build up of BAT in Korea

1998
British America Tobacco Korea established

1999
Merger with Rothmans Korea (Dunhill) with 200 employees
Direct sales system established

2002
Construction of BATK factory
10bn off-take sales
11% share of industry with 600 employees

2003
First local production of Dunhill

2004
Began to export “Made in Korea” product

2006
Factory achieved 50 billion sticks (cumulative)

2007
DHL became the largest cigarette SKU in Korea
BAT-KM (Factory) awarded as responsible tax-payer by the government
Dunhill Superslims launched

2008
Dunhill Brand achieved 15% market share

2009
Over 18% market share
17 Billions cigarette sales
Factory achieved 100 billion sticks (cumulative)
**BAT – A successful company in Korea and large opportunity available**

- Continuous decline of local brands KT&G
- But PMI and JTI also successful in 2008 and 2009

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Our strategy is fully aligned with the group: leadership of the tobacco industry

Group
Region
Korea

Growth
✓ Winning Portfolio
✓ Leader in Innovation
✓ World class TM&D
✓ Pricing

Productivity
✓ Consumer centric local agility
✓ Leader in product quality
✓ Leveraging global scale

Responsibility
✓ Preferred Partner
✓ Shaping Environment
✓ #1 Reputation

Winning Organisation
Leading International Employer in Korea
Growth

- Winning Portfolio
- Leader in Innovation
- World class TM&D
- Pricing
Dunhill - No.1 International Brand in Korea

- Dunhill is number 1 ASU 30 with 28% share
- Dunhill Lights = No.1 SKU in Korea
- Dunhill 1mg = No.1 SKU in 1mg segment
- Dunhill Frost = No.1 SKU in menthol segment
- Dunhill Fine Cut SS = No.1 SS in international SS segment
Dunhill will continue to be the premium benchmark brand in the future

- Launch of Dunhill Nanocut – Driving ASU30 inflow through innovation compact offer
Building our future with Kent

- ASU25 wanting ‘individual choice’
- Innovation platform based on technology positioning
- Utilise global pipeline for future rollout
Direct Sales: Close To Our Consumers

- Retail universe of 134,000 with 90,000 customers
- 4.7 million store visits every year
- BAT direct sales distribution trade coverage 74% incl. distributor (26% K/A)

Source: Industry retail audit

End to end supply chain managed in Korea.
Direct Sales – A Real Competitive Advantage

- Close to the consumer → Direct feedback about consumer behaviour
- Higher trade coverage in Retail → Higher distribution for BAT brands
- Faster speed to market than most competitors → New launches and higher flexibility
- Improved retailer influence → Relationship management
- Higher levels of employee loyalty → Low turnover, committed energized and experienced
The Pricing Opportunity in Korea

Cigarettes are very affordable

- Cigarettes are very affordable
  - Minimum Wage per 26 worked days
  - Working Minutes required to buy a pack

Source: Ministry of Labour

Relatively Low Excise

- Tax incidence
- Excise / VAT
- Trade Margin
- Net Sales

Source: BAT Internal
- CPI and our cost base increased, but margin flat since 2001

- 100 KRW (0.05 GBP) p/p price increase will (+4%) deliver additional NTO of approx. 0.4 trillion KRW to the market

CPI Source: Korea National Statistical Office Database
Productivity

- Consumer centric
- Local agility
- Leader in product quality
- Leveraging global scale
# Driving Productivity to Fuel Growth

<table>
<thead>
<tr>
<th></th>
<th>2006 (Base)</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>BATK Overheads Index</td>
<td>100</td>
<td>105</td>
<td>95</td>
<td>92</td>
</tr>
<tr>
<td>Consumer Price Inflation</td>
<td>100</td>
<td>103</td>
<td>108</td>
<td>111</td>
</tr>
<tr>
<td>Average Salary Increase</td>
<td>100</td>
<td>106</td>
<td>111</td>
<td>116</td>
</tr>
</tbody>
</table>

- Leveraging global scale
- 2008-2009 zero base costing in Korea
- CPMH (Cigarette Per Million Hour) : BAT record hold by BAT Korea
Responsibility

- Preferred Partner
- Shaping Environment
- #1 Reputation
Responsibility

“Our objective is to continue leadership as a responsible corporation in Korea.”

- Continuous Dialogue with Stakeholders.
  - 5 BAT Korea case studies included in our 2009 Group Sustainability Report.

- CSR and CSI programs.

- International Marketing Standards Implementation
  - Fully compliant result in international BAT audit in 2008.

- Continuous, transparent and open dialogue with government.

- Our Concerns:
  - Display Ban, Plain Packaging, Total Smoking Ban, Ingredients
Recognition

- Excellent Corporate Governance Award 2006
- NBCI Award 2009
- Sincere Tax Payment Award 2007
- 5Mn Dollar Export Tower 2007
- 10Mn Dollar Export Tower 2008
- 2008 Stevie Award 2008
- Exemplary Taxpayer Award 2010
- Sincere Local Tax Payment Award 2007

Responsibility
Winning Organisation

Leading International Employer in Korea
People: Our Winning Organisation

- Senior management team with 120 years of international tobacco experience in 30 countries.
- Very strong result oriented and passionate sales force: we can, we will!!
- One of the best and most efficient factories in the world: people make the difference.
- Robust management trainee program.
- International company vs local chaebol.
- Award, Recognition and Celebration programs.
- Diversity: 16 nationalities
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## Summary and Conclusion

### What will drive success?

- Clear brand propositions for different consumer needs
- International brands
- Innovations
- Customer + account management
- Stakeholder engagement
- People

### How is BAT positioned?

- Leading in differentiated portfolio marketing
- Strong brands geared for growth
- Kent → the international innovation platform
- Leverage global expertise & direct sales
- Sound reputation + sensible regulation
- Passionate & result oriented people are a key advantage

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A decade of shareholder return: 23% CAGR in shipment volume