Delivering growth in challenging times

- Volume: -2%
- GDBs: 7%
- Revenue: 5%
- Adjusted Profit: 12%
- Operating margin ppts: +2.1
- Adj EPS: 15%
- DPS: 15%
Delivering growth in challenging times

- CAGR 2004 to 2010: 15%
- Adjusted EPS: 15%
- Dividends per share: 18%

Adj. EPS (pence) and Div per share (pence) from 2004 to 2010.
Contents

- Leaf Supply Chain Scope
- Leaf Industry Dynamics
- Leaf Supply Chain Capabilities
- Sustainability Agenda
- Innovation Agenda

Brian Fleming, Tobacco Utilization Manager
Leaf supply chain scope

- Research
- Grow
- Purchase
- Pack
- Deploy

+ 200,000 farmers
+ 50 source markets
+ 300 different grades
1000 containers at sea at any one time
450,000 tons sourced
+ 50 ports going to 45 factories
+ £1.0bn annual spend

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17 BAT & 3 Associates Leaf Operation accounting for circa 80% of the Group requirements.

45% Domestic / 55% Exports

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BAT has a higher percentage of vertical integration amongst industry competitors

Competitors have changed position from 2008 with vertical integration in countries such as Brazil

Tobacco purchases by type have a direct correlation to the overall portfolio mix of the different competitors

Source: British American Tobacco Estimates, Philip Morris International / Japan Tobacco International investor releases & financial reports
Flue Cured Virginia – Supply Trend
Excluding -China

Source: Universal leaf Tobacco Reports & British American Tobacco Estimates
Evolution Consumer Conference, Edinburgh March 2011

**Burley – Supply Trend**
Excluding -China

Source: Universal Leaf Tobacco Reports & British American Tobacco Estimates
Industry dynamics – Food & Tobacco

Price Index - Food and Tobacco

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</table>

Source: Food & Agriculture Organisation / British American Tobacco Estimates

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Leaf Research and Technology

- Established in 1974 for agronomy research in tobacco, for Souza Cruz's (Brazil) to develop technology packages.
- Recognised Centre of Excellence for the BAT Group and established as a global capability in 2010.
- Linked to Global Research & Development and Blending Innovations Centre.

Global Leaf Research and Technology
Global Leaf Research & Technology provide technology platform and seed breeding capability.

Good Agricultural Practices cascaded to farmers utilising dedicated leaf technical staff.

Farmer base selected, trained and provided with appropriate inputs to produce the required quality of Tobacco in the most effective and efficient manner.
Leaf purchasing

Management of suppliers (internal and external) is essential to ensure effectiveness.

Leaf purchasing capability embedded in Global Leaf Pooling organisation.

Geographically spread team with experience and specific tobacco expertise.

All purchase plans optimised through Global Leaf Pooling planning system.

Global grading system to ensure consistency.
Global Leaf Pooling

Capabilities

- End to End Planning
- Stock Management
- Cost Optimisation
- Leaf Quality & Integrity
- Deployment

Delivering

- Improved speed to market
- Lower durations
- Complexity reduction
- Optimal leaf & blend cost.
- Guaranteed product quality

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- **Leaf sustainability**

- **Regulation**
  
  - **Article 9:** Regulation of contents of tobacco products
  
  - **Article 10:** Regulation of tobacco product disclosures
  
  - **Article 17:** Provision of support for economically viable alternative activities
  
  - **Article 18:** Protection of the environment and health of persons

- **Agricultural Landscape**

  - **Socio-economic:** Social Responsibility in Tobacco Production
  
  - **Soil & water:** Degradation of soil structure and water management—key focus of Good Agricultural Practices
  
  - **Forest:** BAT has influenced the planting of over 400 million trees
  
  - **Biodiversity:** Agricultural impact—Biodiversity Partnership

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Leaf innovation

Leaf a consumer differentiation opportunity?
- 4 different major types of tobacco
- 300 different grades of tobacco
- +50 different sourcing locations
- Decades of experience.
Summary

- Vertical integration is still a point of difference even though major competitors are adopting a similar model.

- Core capabilities through the leaf supply chain provide competitive advantage.

- Decades of operating in the leaf business provides experience and knowledge.

- Major future challenges as regards pressure on agricultural landscape and regulation.
Evolution Consumer Conference 2011
10th March 2011

Ralph Edmondson, Head of Investor Relations, &
Brian Fleming, Tobacco Utilization Manager