Presentation to the Investment Analyst Society of South Africa

24th March 2011
Johannesburg
Ralph Edmondson
Head of Investor Relations
Agenda

- Overview of the Group
- Group strategy
- Trading environment and outlook
- Summary
- Questions & answers
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
Group overview

- Focus on Global Drive Brands + Vogue & Viceroy
- 180 markets
- Leadership in over 50 markets
- Over 60,000 employees
- $65.5 bn gross turnover
- $22.8 bn net turnover
- $7.2 bn adjusted profit from operations
- Market capitalisation – top 10 in the UK
Consistent market out-performance

**Daily Relative performance to FTSE100**

02/01/2006 - 09/03/2011 (GMT)

Source: Reuters
A strategy for delivering shareholder value

- Vision: Achieve leadership of the global tobacco industry
- Strategy
  - Growth
    - Productivity
    - Winning organisation
    - Responsibility

South Africa, March 2011
Group strategy: Growth

- Organic growth
  - Key segments and brands
  - Innovation
- Priority markets
- Mergers and acquisitions
Group strategy: Productivity

- Smart cost management
  - Supply chain
  - Overheads and indirects
- Marketing efficiency
- Capital effectiveness
Group strategy: Responsibility

- Sustainability agenda
- Business Principles
- Standards of Business Conduct
- Effective regulation
- Harm reduction
Group strategy: Winning organisation

- Great place to work
  - Leadership
  - Culture
- Outstanding people
  - Diverse
  - Opportunities
The business model

- Volumes 1 - 1½%
- Revenue 3 - 4%
- Profit 6 - 7%
- HSF Adj EPS
The business model

Organic volume growth
- 2008: +0.4%
- 2009: -3.3%
- 2010: -3.0%

Volumes 1 - 1½%

Revenue 3 - 4%

Profit 6 - 7%

HSF Adj EPS
The business model

- Volumes 1 - 1½%
- Revenue 3 - 4%
- Profit 6 - 7%
- HSF Adj EPS

Organic revenue growth:
- 2008  +7%
- 2009  +5%
- 2010  +3%
The business model

Volumes 1 - 1½%

Revenue 3 - 4%

Profit 6 - 7%

HSF Adj EPS

Organic profit growth
- 2008: +10%
- 2009: +7%
- 2010: +6%
The business model

- Volumes: 1 - 1½%
- Revenue: 3 - 4%
- Profit: 6 - 7%

Adjusted EPS growth:
- 2008: +19%
- 2009: +19%
- 2010: +15%
Competitive edge through:

Geographic diversity

- Strong emerging markets exposure

- Top 5 markets
  - Canada
  - Brazil
  - South Africa
  - Russia
  - Australia

Commodity-based economies with stable currencies
Competitive edge through:

Diversified and balanced brand portfolio
- Balance between premium, mid and low priced segments
- Global drive brands have maintained growth despite recession
- Strong regional and local brands
Competitive edge through:

Marketing expertise

- Trade marketing and distribution
  - Successful trade partnerships
  - Mutually beneficial relationships
  - Rated best overall supplier in the FMCG industry in 13 out of 22 markets surveyed
  - Extending direct distribution – over 50% of volume

South Africa, March 2011
Competitive edge through:

Marketing expertise
- Trade marketing and distribution
- Consumer insights
  - World class understanding of consumer trends and tastes
  - Responding to the needs of consumers
Competitive edge through:

Marketing expertise

- Trade marketing and distribution
- Consumer insights
- Leader in innovation
  - Nanotek – first successful king-size super-slim
  - Accounts for 16% of Kent global volume
  - Kent Nanotek 1.2% share in Russia
Competitive edge through:

Marketing expertise
- Trade marketing and distribution
- Consumer insights
- Leader in innovation
  - Dunhill “Reloc” packaging
  - Almost 11% share in GCC
  - Dunhill share growth in Malaysia
Competitive edge through:

Marketing expertise
- Trade marketing and distribution
- Consumer insights
- Leader in innovation
  - Success with capsule technology
  - Kent, Kool and Lucky Strike
  - Broad geographic roll out
Competitive edge through:

Productivity

- 5 year programme 2003-07
  - Annualised cost savings of £1 billion by 2007
  - Focus on overheads and indirects and the supply chain

- 5 year programme 2008-12
  - Targeting 35% operating margin by 2012
  - Shared services and smarter operating platforms
Delivering growth in challenging times

- CAGR 2000 to 2010:
  - Adjusted EPS 11.9%
  - Dividends per share 14.7%
Delivering growth in challenging times

- Strong cash generation
- Balance sheet in excellent shape
- Share buy-back programme to be recommenced
  - £750 million
Global drive brands

- **DUNHILL**
  - Volume: 48 billion +18%
  - Share up 0.4ppt in T40
  - Successful Brazil migration
  - Strong performance in GCC

- **KENT**
  - Volume: 61 billion -1%
  - Share up 0.1ppt in T40
  - Strong share performance
    - Eastern Europe
  - Excellent Nanotek progress
  - Successful capsule roll out

- **GDB volume:** 208 billion +7%
- **International brands** 358 billion +5%
- **Premium volume** -1%
- **VFM volume** -5%
- **Low price volume** -3%

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GDB volumes 2000-2010

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Global drive brands

- Volume: 26 billion +2%
- Share stable in T40
- Growth across Americas
- Initial success of Click & Roll

PALL MALL

- Volume: 73 billion +8%
- Share up 0.3ppt in T40
- Growth across W Europe
- Lower share in Russia, Pakistan

- GDB volume: 208 billion +7%
- International brands 358 billion +5%
- Premium volume -1%
- VFM volume -5%
- Low price volume -3%
Asia Pacific

Strong organic profit growth

Strong profit growth in Australia and Japan

Share growth in Malaysia

Record share in South Korea
Revenue and profit driven by strong pricing, improved mix and FX

Strong volume growth in Canada

Stable volume in Mexico
Western Europe

Strong underlying profit growth

Excellent margin improvement

Improving share performance in second half of the year

Volume: -8%

GDBs: 4%

Revenue: -12%

Profit: 6%

Op. Margin ppts: +5.2

-15% to 5%
Eastern Europe

Profit affected by adverse exchange

Share and profit growth in Russia and Ukraine

Illicit trade impacted Romania
Africa & Middle East

Strong revenue and profit growth

Good performances in Nigeria and the GCC

Turkey impacted by excise and competitor pricing

- Volume: -2%
- GDBs: 11%
- Revenue: 11%
- Profit: 19%
- Op. Margin: +2.1
Productivity programme

- £1 billion of annualised cost savings 2003 – 07

- £800 million target for 2008 – 12
  - £245 million in 2008
  - £239 million in 2009
  - £327 million in 2010

- Targeting 35% operating margin by 2012
  - 30.0% in 2007
  - 30.7% in 2008
  - 31.4% in 2009
  - 33.5% in 2010
Operating margin*

<table>
<thead>
<tr>
<th>Region</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>35.1%</td>
<td>35.4%</td>
</tr>
<tr>
<td>Americas</td>
<td>37.6%</td>
<td>39.5%</td>
</tr>
<tr>
<td>W. Europe</td>
<td>25.6%</td>
<td>30.8%</td>
</tr>
<tr>
<td>E. Europe</td>
<td>25.1%</td>
<td>21.2%</td>
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<tr>
<td>AME</td>
<td>31.9%</td>
<td>34.0%</td>
</tr>
<tr>
<td>Group</td>
<td>31.4%</td>
<td>33.5%</td>
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* Based on adjusted profit

South Africa, March 2011
Drivers of adjusted EPS growth

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<thead>
<tr>
<th></th>
<th>Pence</th>
<th>%</th>
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<tbody>
<tr>
<td>EPS 2009</td>
<td>153.0</td>
<td></td>
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<tr>
<td>Profit performance</td>
<td>9.6</td>
<td>+6</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>0.3</td>
<td>-</td>
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<tr>
<td>Net finance costs</td>
<td>2.1</td>
<td>+1</td>
</tr>
<tr>
<td>Associates</td>
<td>3.1</td>
<td>+2</td>
</tr>
<tr>
<td>Taxation</td>
<td>0.1</td>
<td>-</td>
</tr>
<tr>
<td>Minority interests</td>
<td>0.7</td>
<td>+1</td>
</tr>
<tr>
<td>Exchange</td>
<td>7.1</td>
<td>+5</td>
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<tr>
<td>Share issues</td>
<td>(0.3)</td>
<td>-</td>
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<tr>
<td>EPS 2010</td>
<td>175.7</td>
<td>+15</td>
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## Cash Flow

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
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<tbody>
<tr>
<td><strong>Adjusted profit from operations</strong></td>
<td>4,984</td>
<td>4,461</td>
</tr>
<tr>
<td>Non cash items</td>
<td>501</td>
<td>471</td>
</tr>
<tr>
<td>Increase in working capital</td>
<td>(61)</td>
<td>(100)</td>
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<tr>
<td>Net capital expenditure</td>
<td>(523)</td>
<td>(515)</td>
</tr>
<tr>
<td><strong>Operating cash flow</strong></td>
<td>4,901</td>
<td>4,317</td>
</tr>
<tr>
<td>Net interest paid</td>
<td>(491)</td>
<td>(499)</td>
</tr>
<tr>
<td>Tax paid</td>
<td>(1,178)</td>
<td>(1,095)</td>
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<tr>
<td>Dividends paid to non-controlling interests</td>
<td>(234)</td>
<td>(234)</td>
</tr>
<tr>
<td>Restructuring costs</td>
<td>(219)</td>
<td>(187)</td>
</tr>
<tr>
<td>Dividends from associates</td>
<td>461</td>
<td>238</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td>3,240</td>
<td>2,630</td>
</tr>
<tr>
<td>Operating cash flow % of operating profit</td>
<td>98%</td>
<td>97%</td>
</tr>
<tr>
<td>Free cash flow % of adjusted earnings</td>
<td>92%</td>
<td>86%</td>
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South Africa, March 2011
## Cash Flow

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>3,240</td>
<td>2,630</td>
</tr>
<tr>
<td>Dividends paid to shareholders</td>
<td>(2,093)</td>
<td>(1,798)</td>
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<tr>
<td>Net investment activities</td>
<td>-</td>
<td>(196)</td>
</tr>
<tr>
<td>Other net flows</td>
<td>(77)</td>
<td>(203)</td>
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<tr>
<td>Net cash flow</td>
<td>1,070</td>
<td>433</td>
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</table>
### Net debt

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Opening net debt at 1 January</td>
<td>(8,842)</td>
<td>(9,891)</td>
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<tr>
<td>Net cash flow for the period</td>
<td>1,070</td>
<td>433</td>
</tr>
<tr>
<td>Exchange rate effects</td>
<td>(63)</td>
<td>672</td>
</tr>
<tr>
<td>Other (including acquired net debt)</td>
<td>(6)</td>
<td>(56)</td>
</tr>
<tr>
<td>Closing net debt at 31 December</td>
<td>(7,841)</td>
<td>(8,842)</td>
</tr>
</tbody>
</table>
Summary

- Good share trends in H2 2010
- Recovery signs in key markets
- Many successful innovations launches in 2010
- Continued pricing momentum
- Excellent progress on cost savings
- In good shape as recession recedes
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