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TOBACCO**

A large, abstract graphic element on the left side of the slide. It features a thick, dark blue brushstroke that curves upwards from the bottom left towards the center. Above it, a thinner, yellow brushstroke follows a similar upward curve. The overall effect is dynamic and modern.

# **Morgan Stanley Consumer Retail Conference**

New York

November 2008



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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



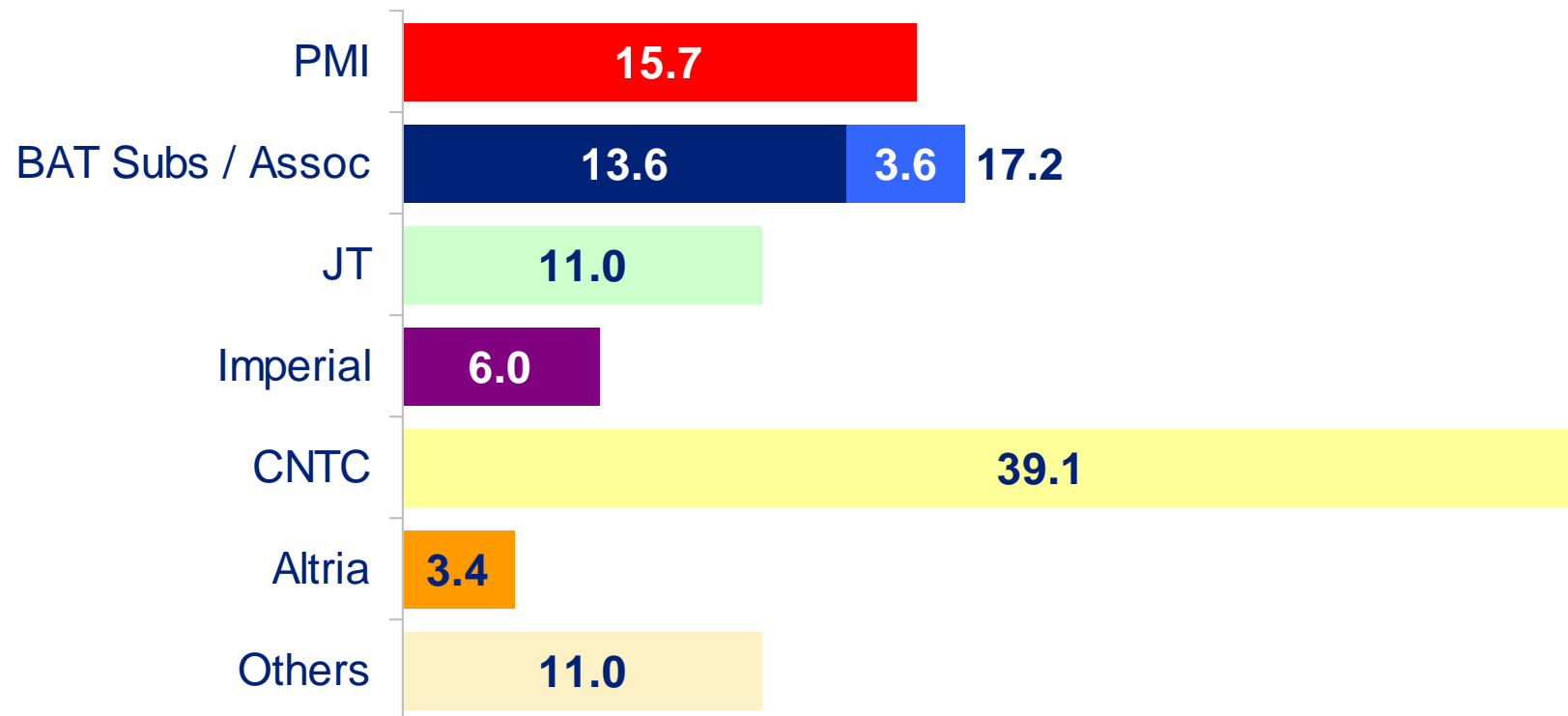
- Over 300 brands
- Focus on Global Drive Brands + Vogue & Viceroy
- 180 markets
- Leadership in over 50 markets
- Almost 54,000 employees
- \$42 bn gross turnover
- \$16 bn net turnover
- \$4.8 bn profit from operations
- Market capitalisation – currently number 7 in the UK



# Major competitors



2007 World Market Share % (Proforma)



- 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



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# Strategy for shareholder value

**VISION**

**ACHIEVE  
LEADERSHIP OF  
THE GLOBAL  
TOBACCO INDUSTRY**

**STRATEGY**

**GROWTH**

**PRODUCTIVITY**

**RESPONSIBILITY**

**WINNING ORGANISATION**





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# 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**

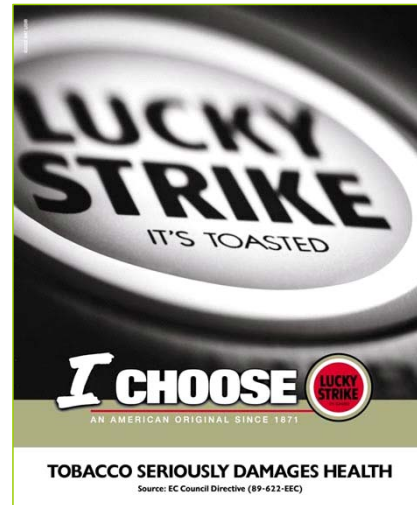
**Mergers and  
Acquisitions**



# BAT Global Drive Brands



- Masculine
- Full Flavour
- ASU30



- Premium Lights
- ASU30
- Innovative product (3-Tek, Mintek, Nanotek)

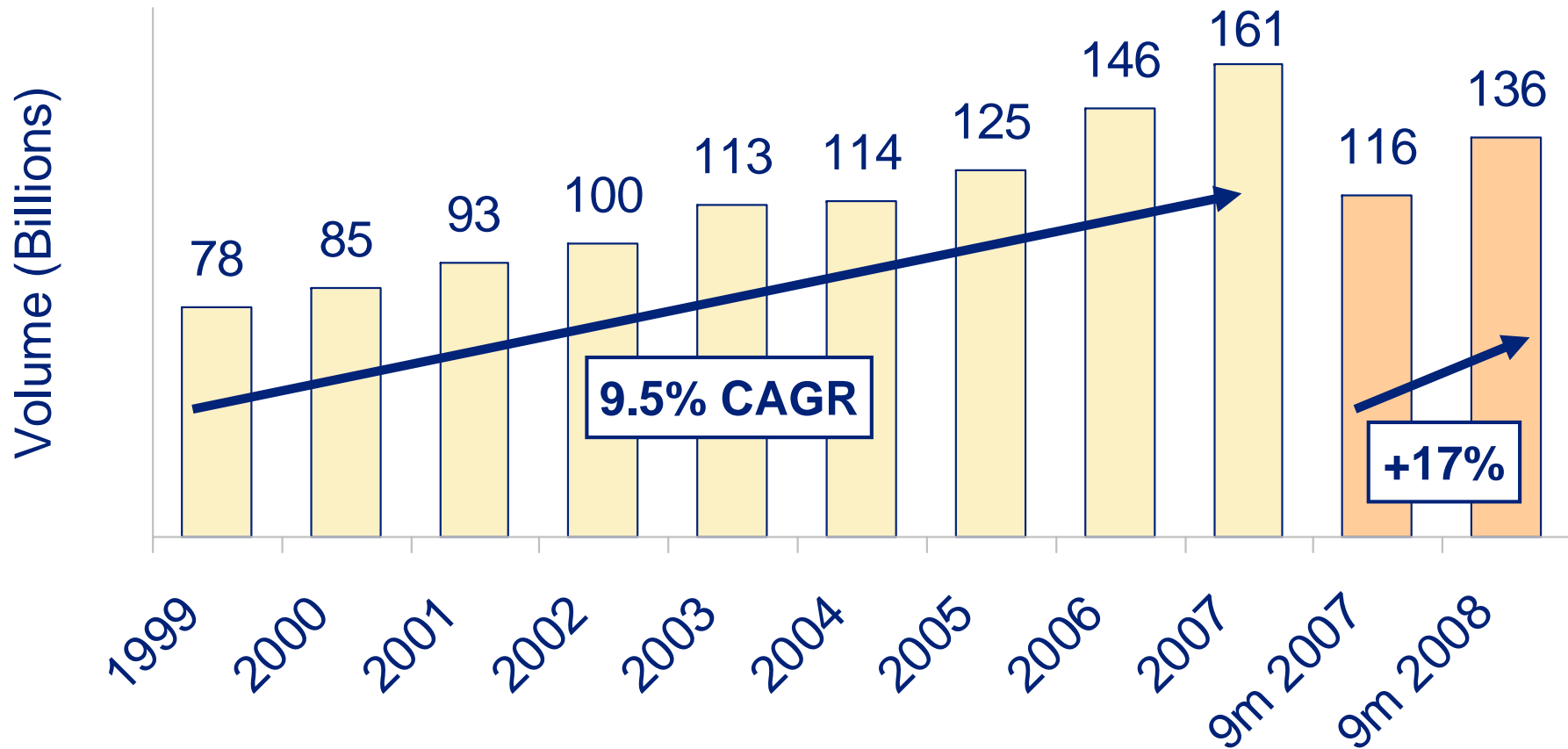


- Perfectionist in tobacco
- Top end of the tobacco spectrum
- Modern classic
- Full Flavour/Lights

- International VFM
- ATUU30/Unisex
- Total Tobacco Satisfaction via FF/Lights, Menthol, Superslims, OTP



# Global Drive Brands



- Global drive brands sales volumes have grown consistently

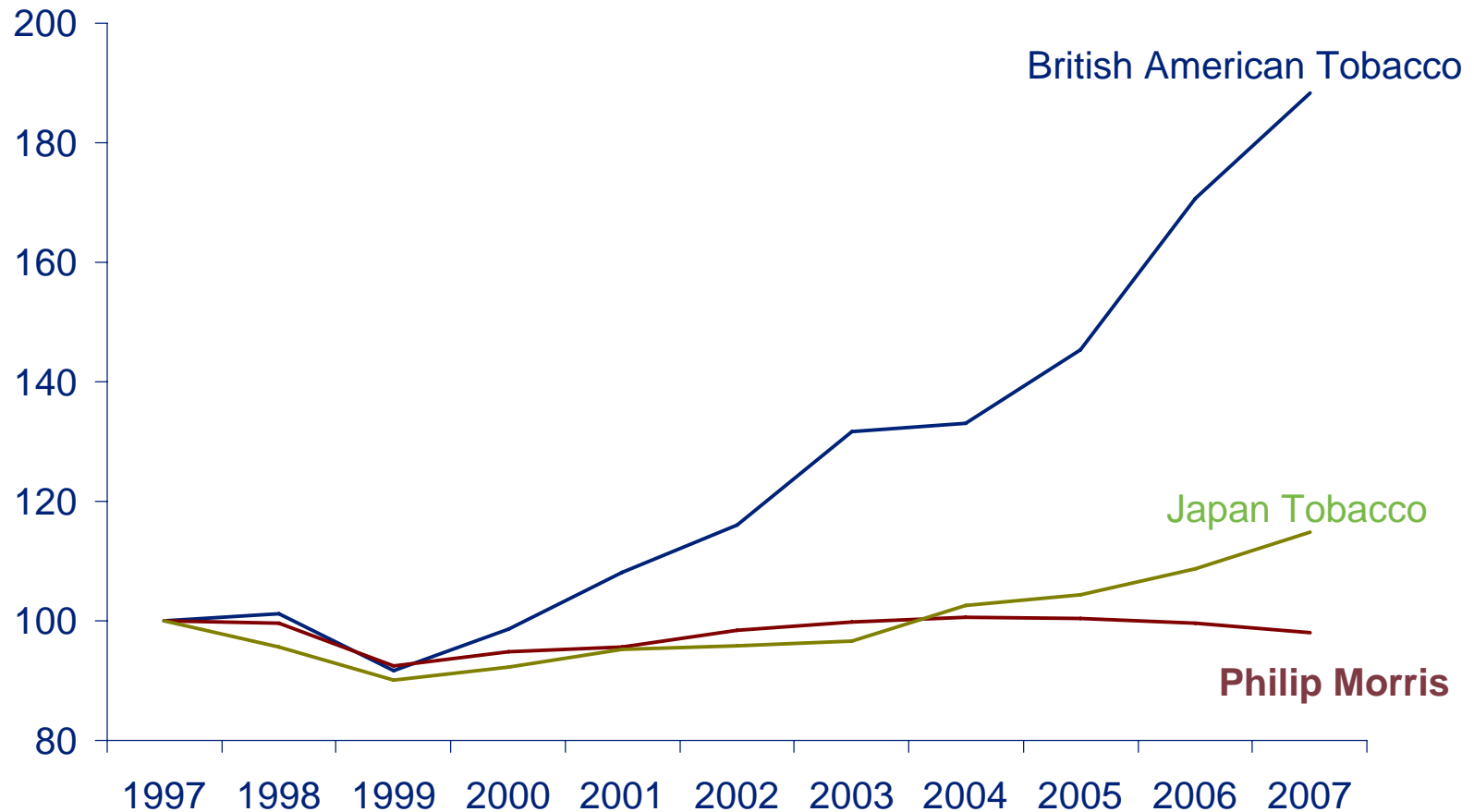
Source: Company's financial results



# Global Drive Brands: volume growth index



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Advertising Principles → International Marketing Standards  
Base 100: 1997

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



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## 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 Tobakskompagni cigarette business, certain snus and RYO interests



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# 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	2003	2004	2005	2006	2007
Overheads & indirects	64	153	256	355	455
Supply chain	27	120	226	374	551
<b>Total</b>	<b>91</b>	<b>273</b>	<b>482</b>	<b>729</b>	<b>1,006</b>

Factory Footprint	2003	2004	2005	2006	2007
Cigarette factories	72	67	64	52	47
Countries	61	58	55	45	40



Annualised savings of £1bn by 2007



## 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



	2004	2005	2006	2007	Total '04 - '07
Attributable Profit (£ bn)	2.8	1.8	1.9	2.1	<b>8.6</b>
Adjusted Earnings (£ bn)	1.7	1.9	2.0	2.2	<b>7.8</b>
Free Cash Flow (£ bn)	1.3	1.6	1.5	1.7	<b>6.1</b>
<b>FCF to Adj. Earnings</b>	<b>81%</b>	<b>84%</b>	<b>76%</b>	<b>77%</b>	<b>78%</b>

- 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



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

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

## 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

	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
Long term rating	Baa1	BBB+	BBB+
Short term rating	P-2	A-2	F2
Outlook	Stable	Stable	Stable



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# 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



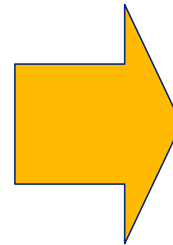
Ensure we have the right people and the right working environment to deliver our Vision.

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**

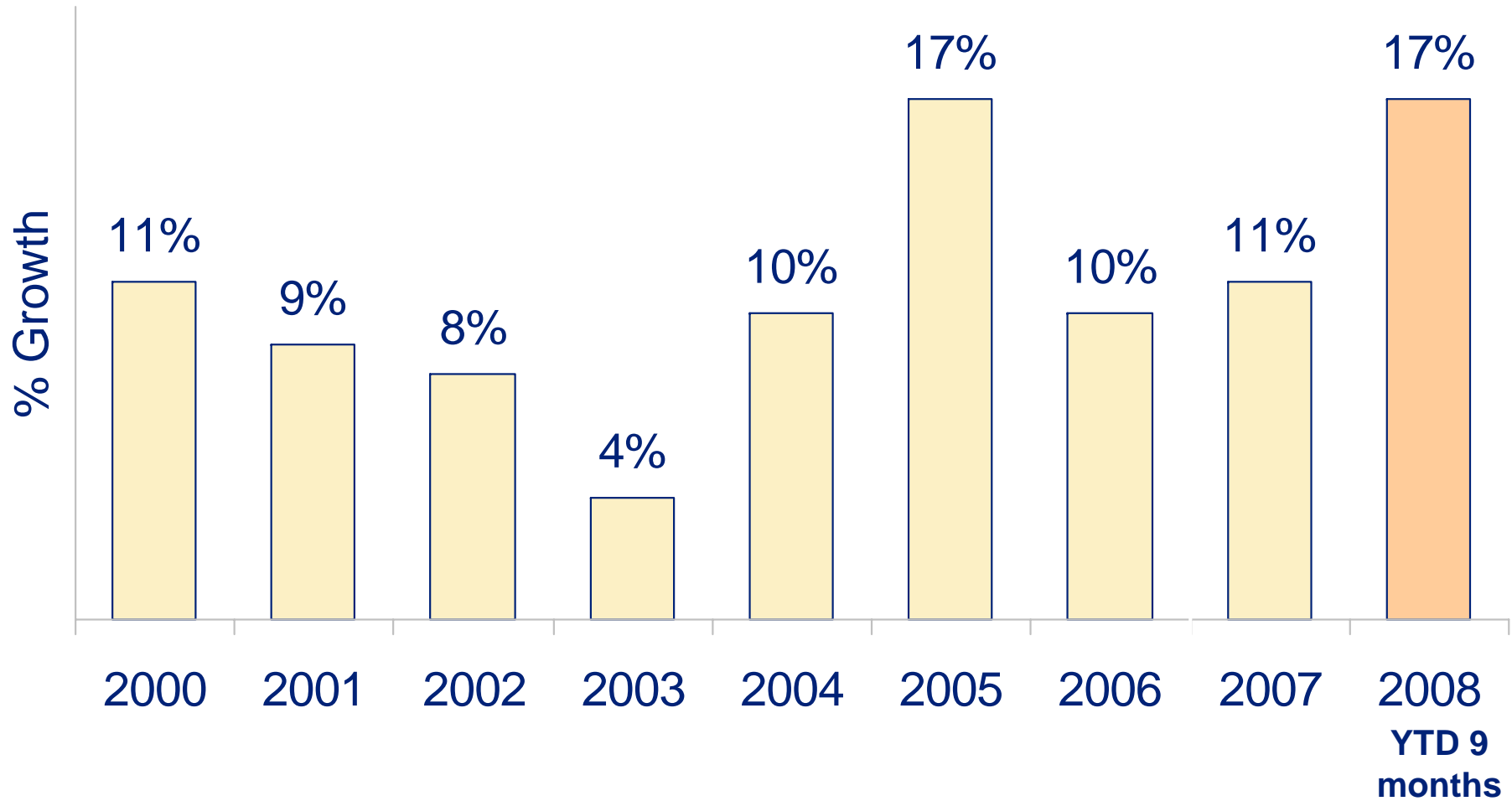
Distributing 65% of sustainable net earnings as dividends (with balance of free cash flow for strategic acquisitions or share buy-backs, subject to maintaining an acceptable credit rating)

\* Based on internal estimates over the medium to long term



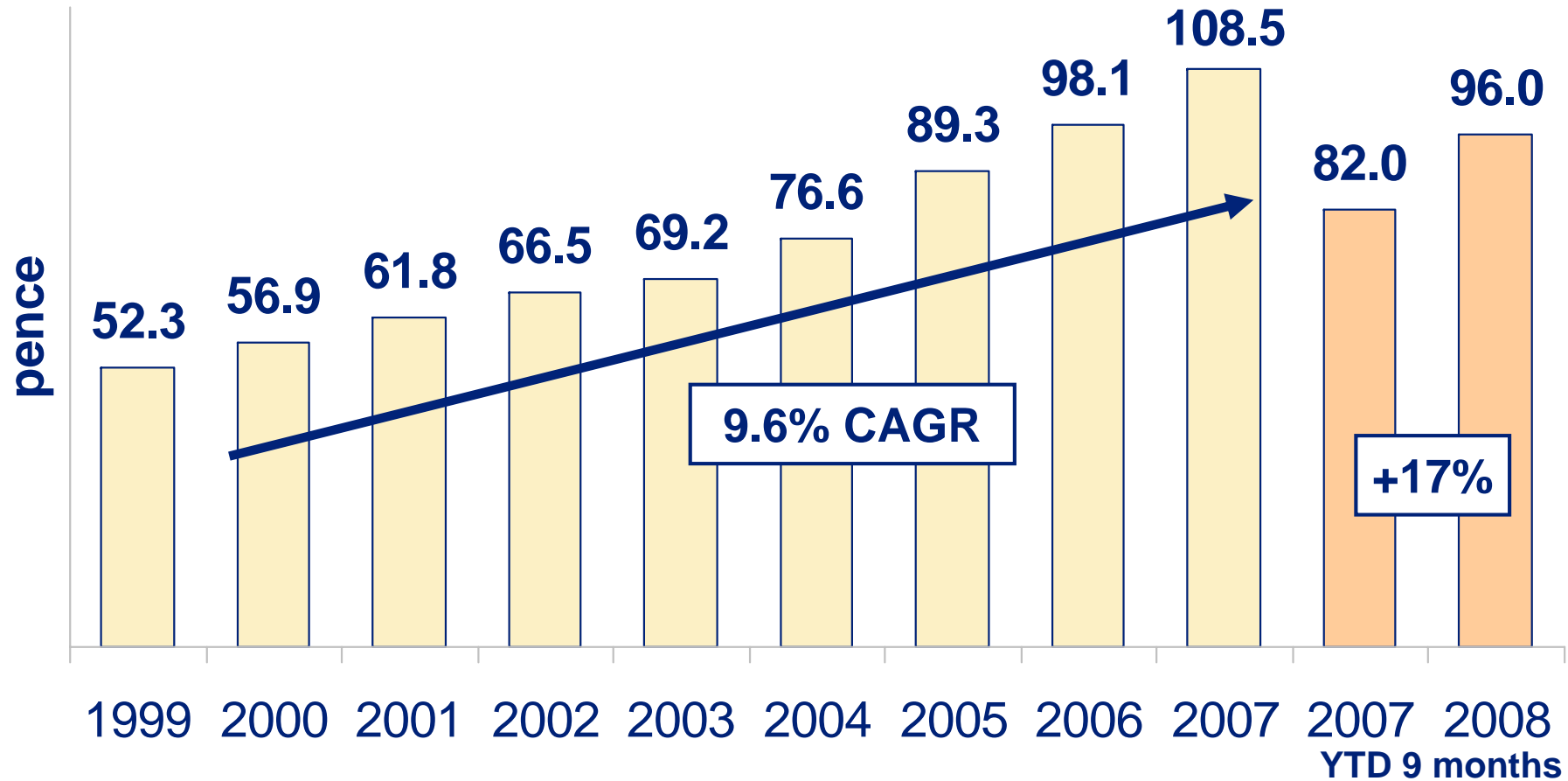


# Earnings per share growth



Source: Company's financial results

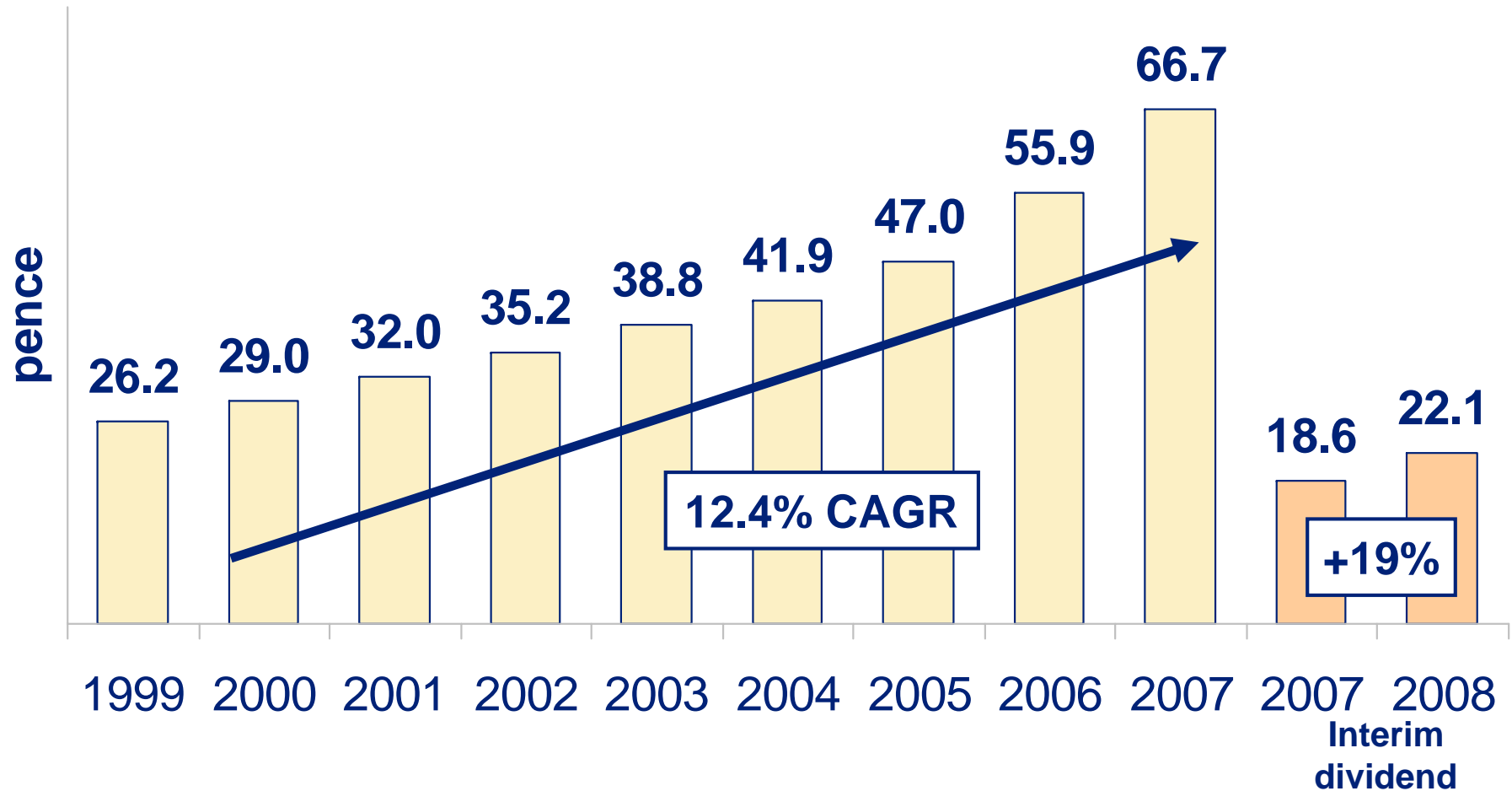
# Earnings per share



The target of high single figure earnings growth has been delivered

Source: Company's financial results

# Dividends per share



Targeting a 65% payout ratio in 2008

Source: Company's financial results



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## 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



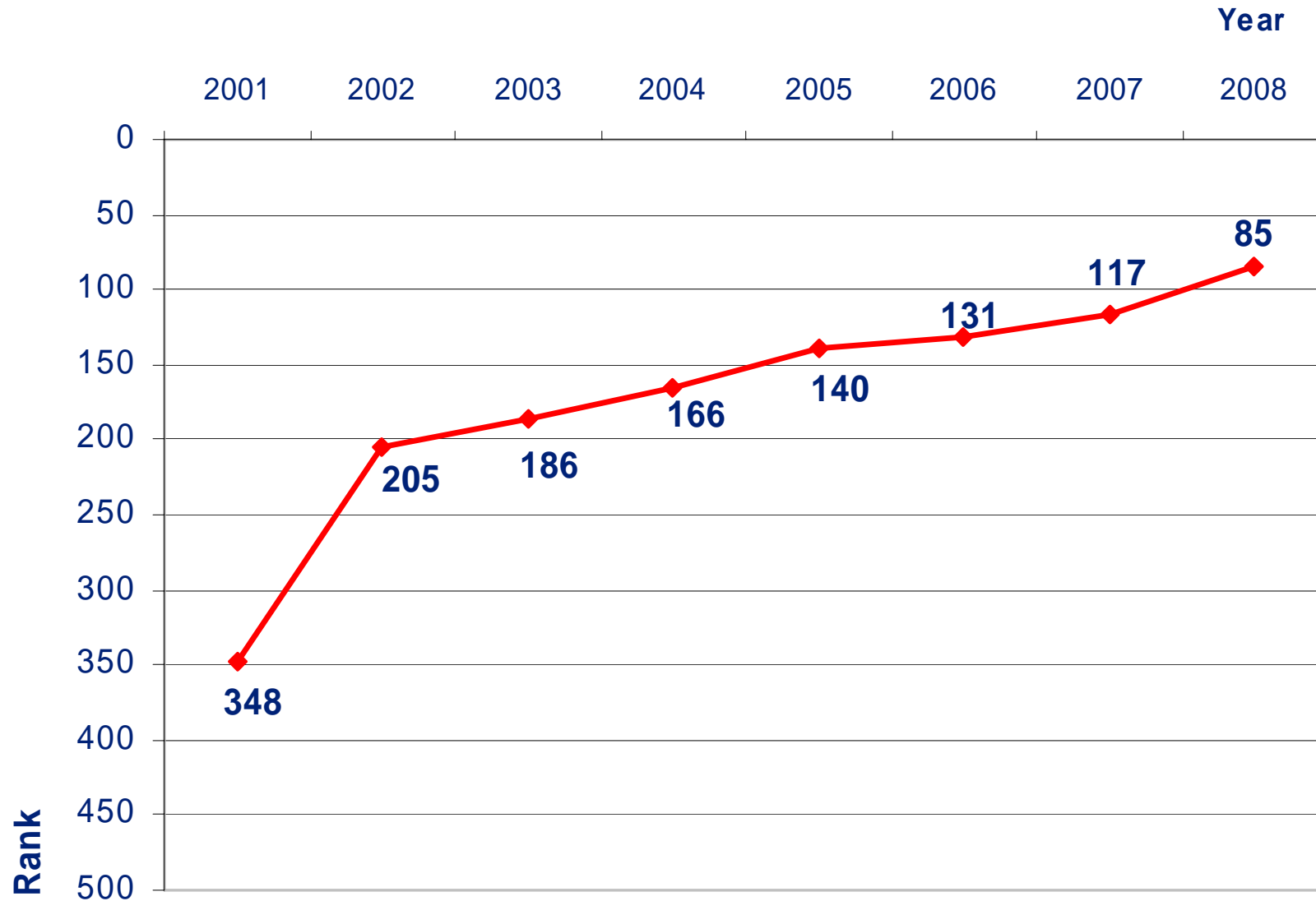
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## Nine months 2008 headlines

■ 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



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