



Presentation to the Investment Analyst Society of South Africa

24th March 2011
Johannesburg



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Agenda

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

Back in October 2008...





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



Vogue

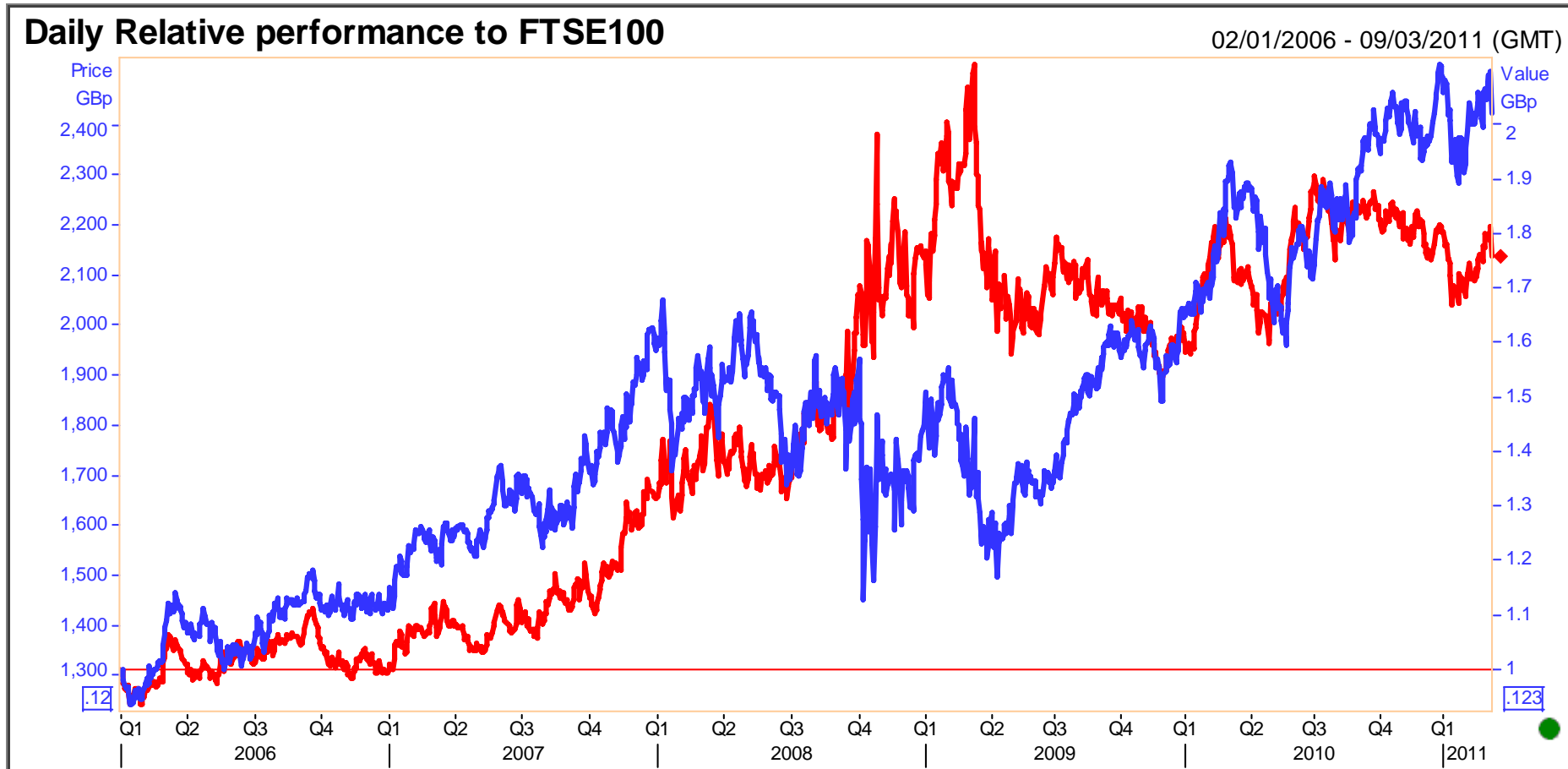


KENT

PALL MALL



Consistent market out-performance



BAT share price — Relative performance to FTSE 100 —

Source: Reuters

A strategy for delivering shareholder value



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



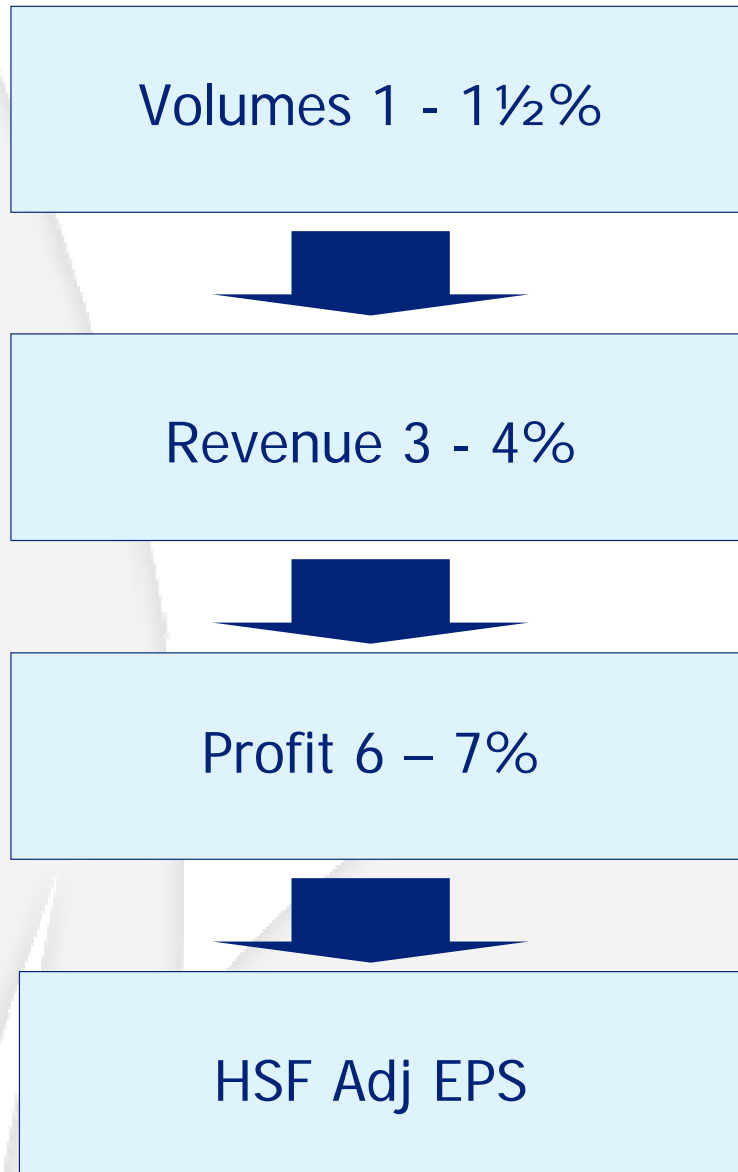
- Sustainability agenda
- Business Principles
- Standards of Business Conduct
- Effective regulation
- Harm reduction

Group strategy: Winning organisation

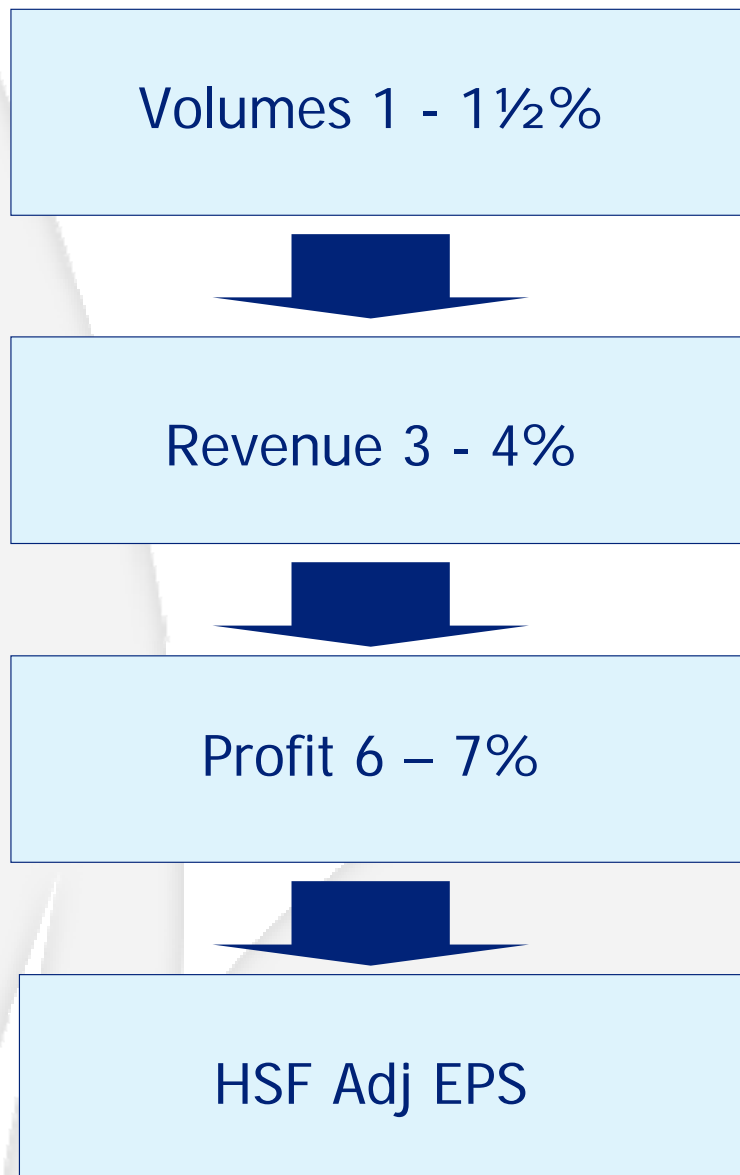


- Great place to work
 - Leadership
 - Culture
- Outstanding people
 - Diverse
 - Opportunities

The business model



The business model



Organic volume growth

- 2008 +0.4%
- 2009 - 3.3%
- 2010 - 3.0%

The business model



Volumes 1 - 1½%



Revenue 3 - 4%



Profit 6 - 7%

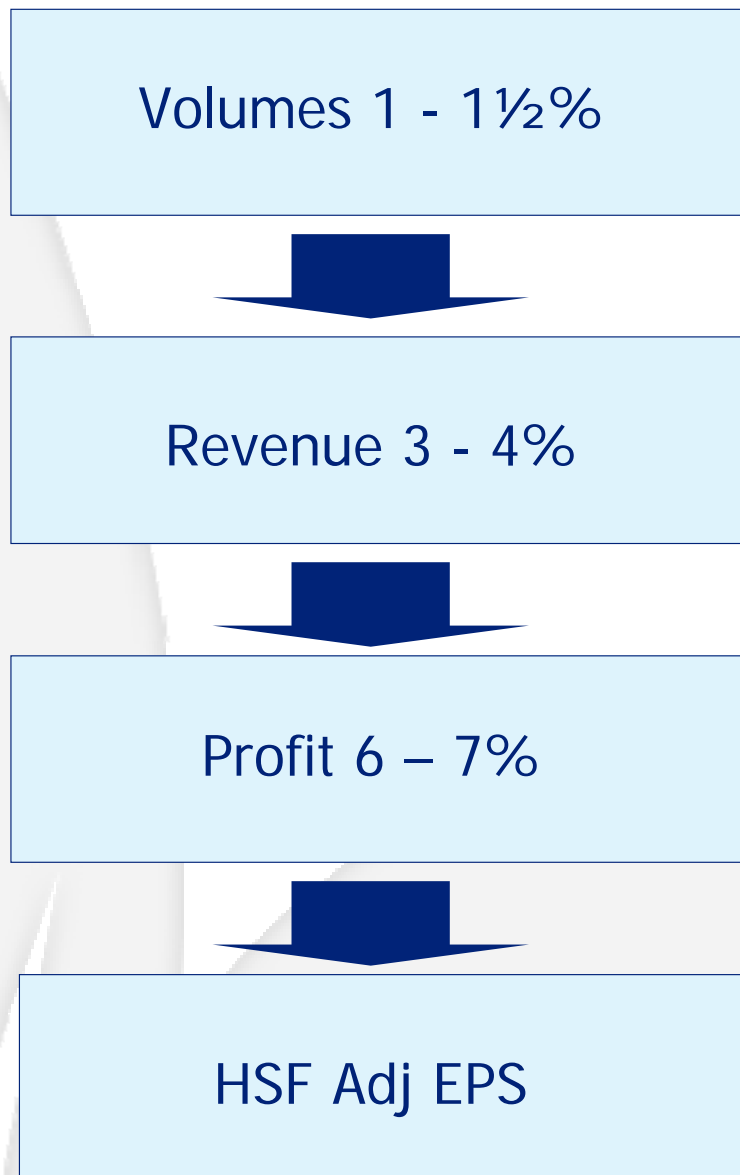


HSF Adj EPS

Organic revenue growth

- 2008 +7%
- 2009 +5%
- 2010 +3%

The business model



Organic profit growth

- 2008 +10%
- 2009 +7%
- 2010 +6%

The business model



Volumes 1 - 1½%



Revenue 3 - 4%



Profit 6 - 7%



HSF Adj EPS

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

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:

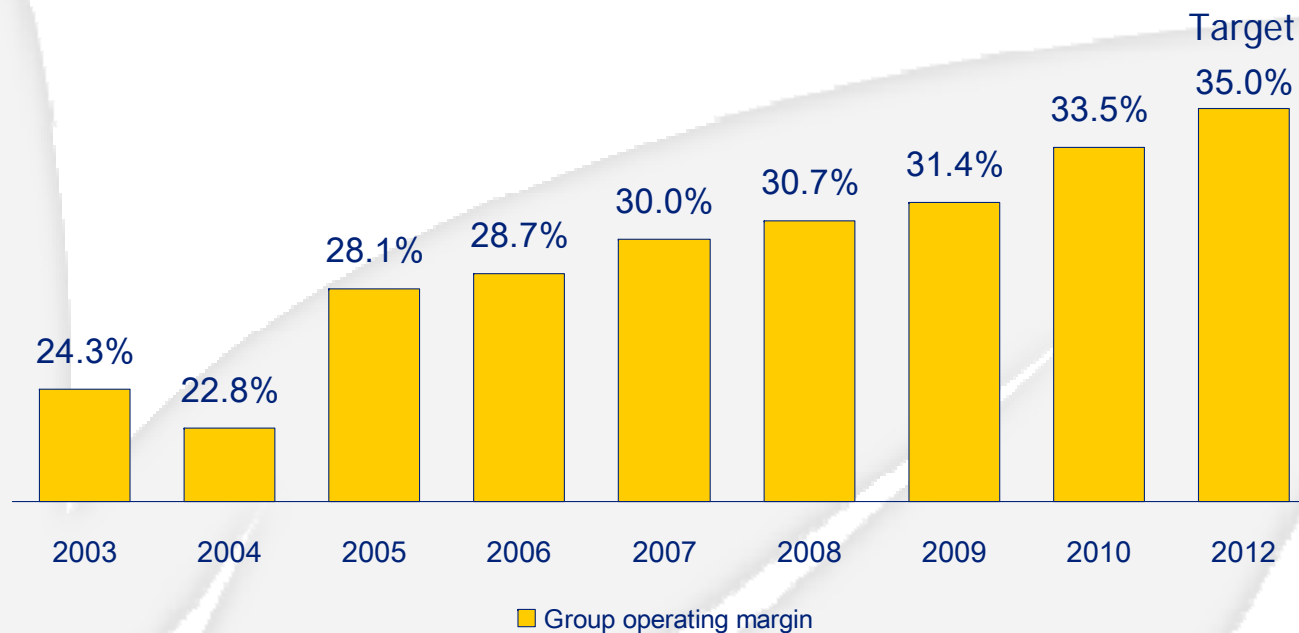
Marketing expertise

- 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

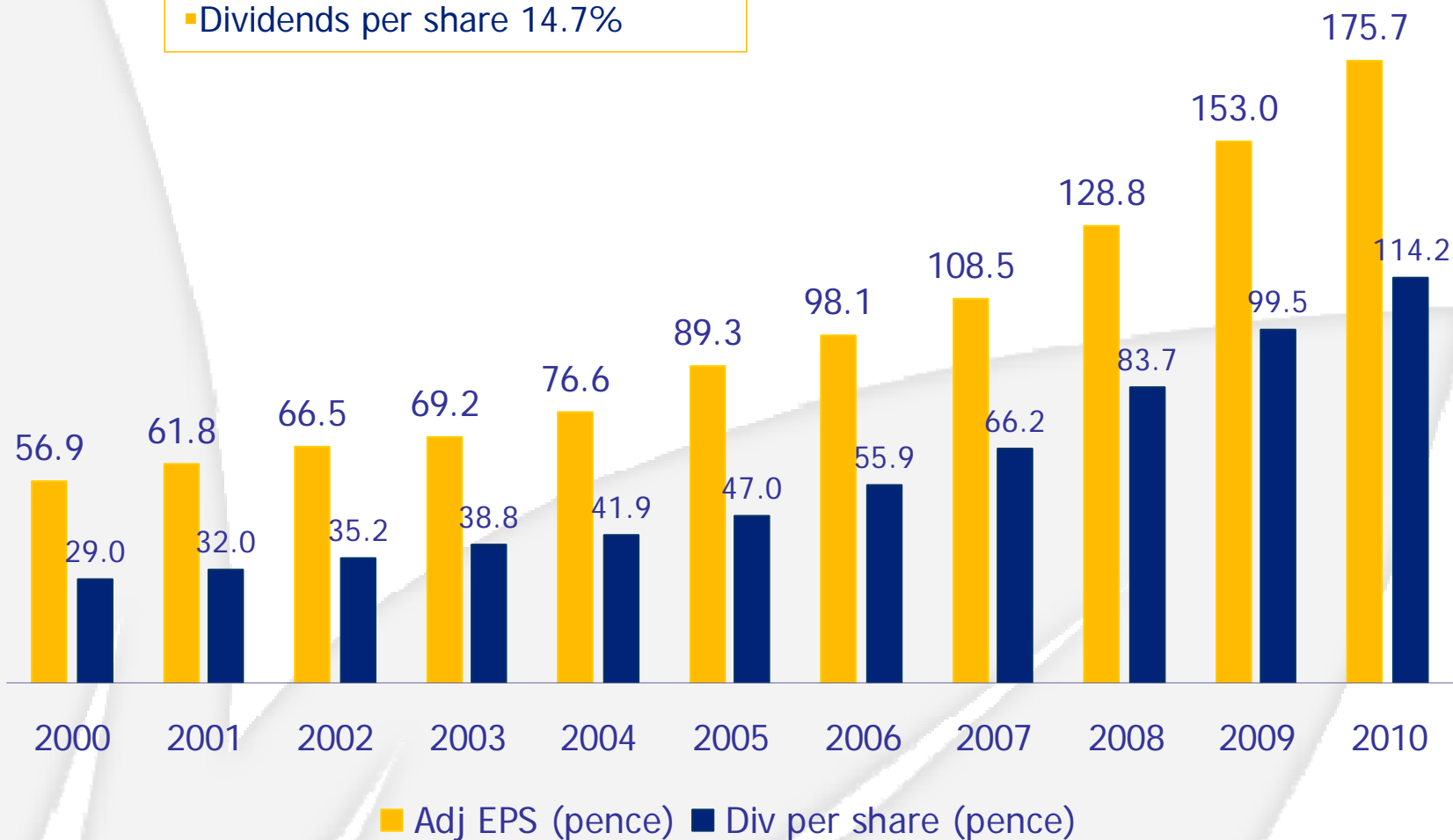
- 5 year programme 2003-07
 - Annualised cost savings of £1 billion by 2007
 - Focus on overheads and indirects and the supply chain
- 5 year programme 2008-12
 - Targeting 35% operating margin by 2012
 - Shared services and smarter operating platforms



Delivering growth in challenging times



- CAGR 2000 to 2010:
 - Adjusted EPS 11.9%
 - Dividends per share 14.7%



Delivering growth in challenging times

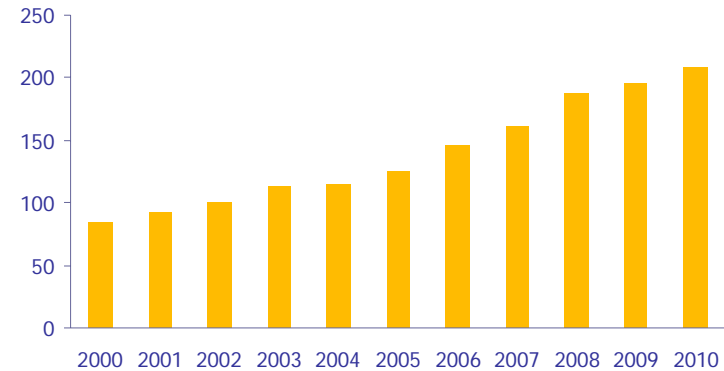
- Strong cash generation
- Balance sheet in excellent shape
- Share buy-back programme to be recommenced
 - £750 million

Global drive brands



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

GDB volumes 2000-2010



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

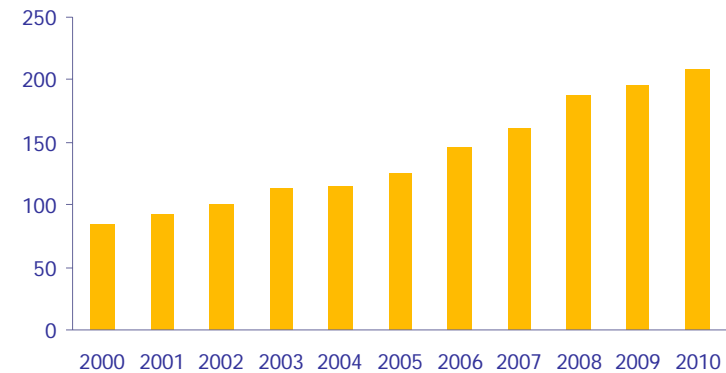
- GDB volume: 208 billion +7%
- International brands 358 billion +5%
- Premium volume -1%
- VFM volume -5%
- Low price volume -3%

Global drive brands



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

GDB volumes 2000-2010



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

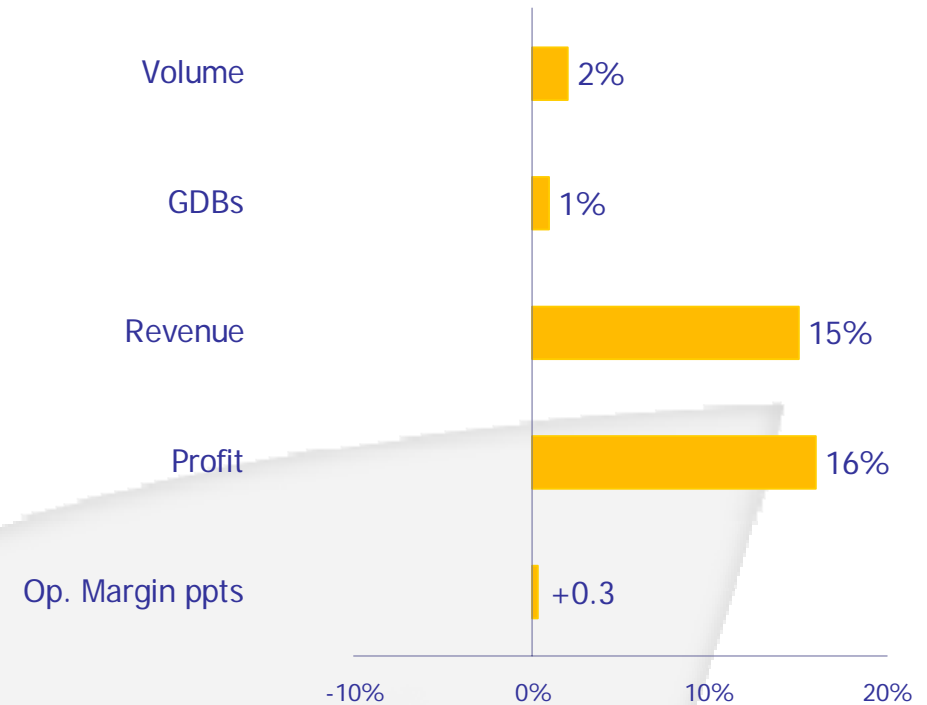


Strong organic profit growth

Strong profit growth in Australia and Japan

Share growth in Malaysia

Record share in South Korea



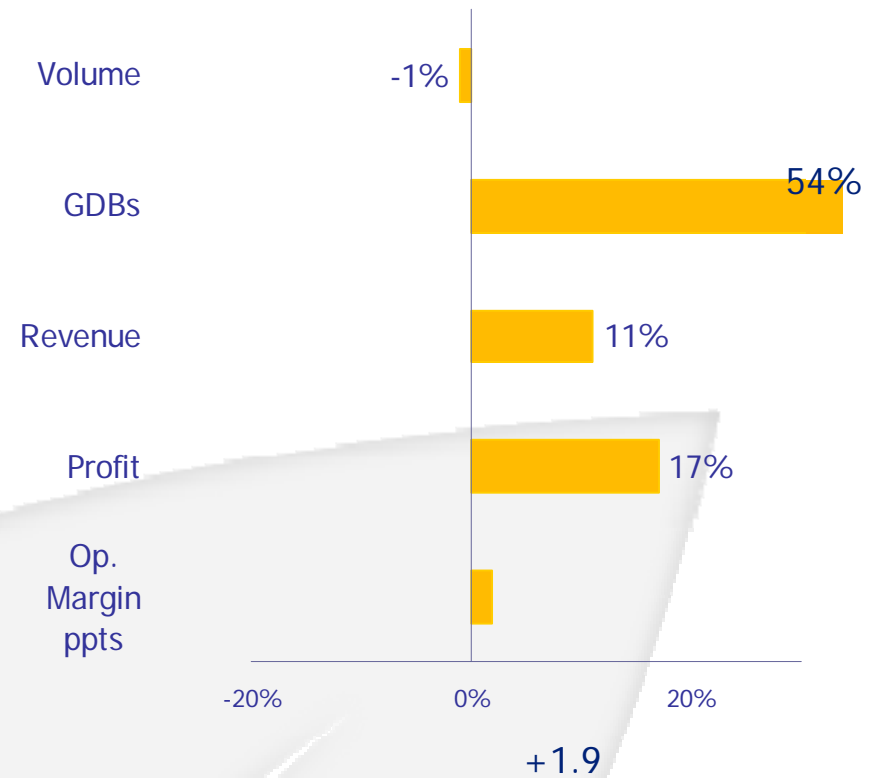
Americas



Revenue and profit driven by strong pricing, improved mix and FX

Strong volume growth in Canada

Stable volume in Mexico



Western Europe



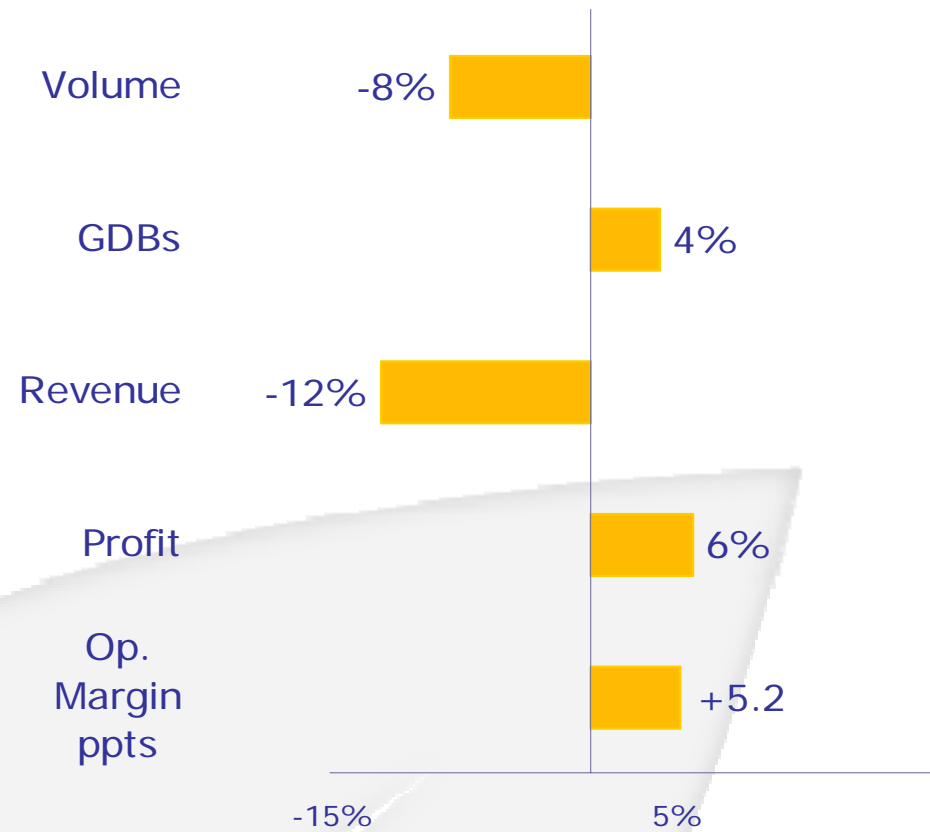
**BRITISH AMERICAN
TOBACCO**



Strong underlying profit growth

Excellent margin improvement

Improving share performance in second half of the year



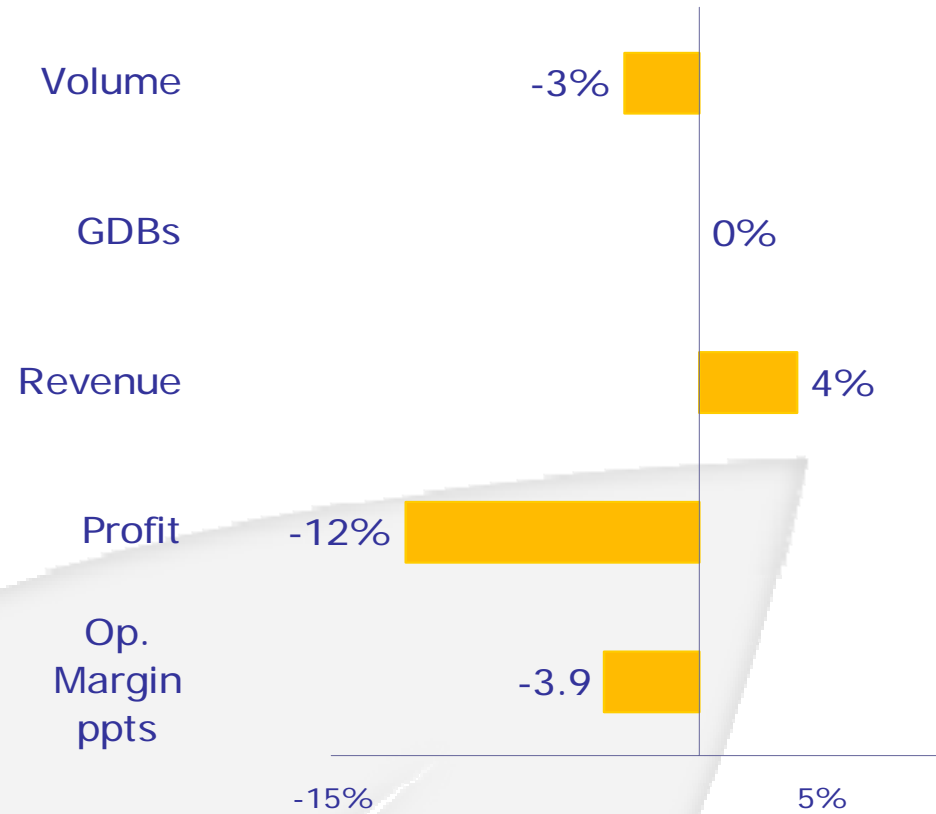
Eastern Europe



Profit affected by adverse exchange

Share and profit growth in Russia and Ukraine

Illicit trade impacted Romania



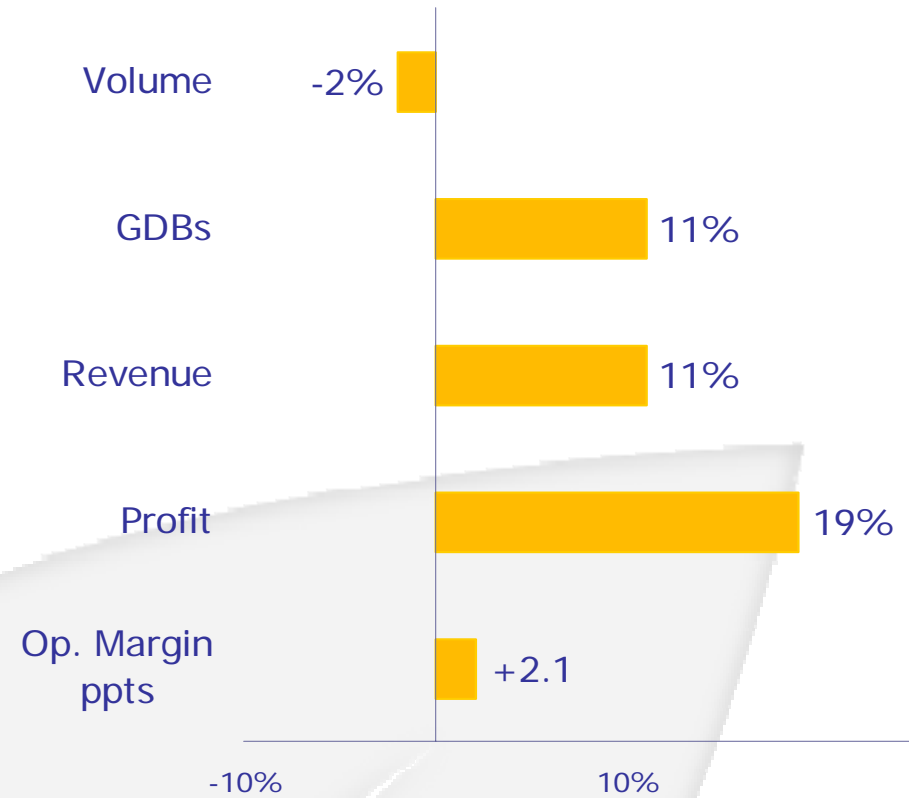
Africa & Middle East



Strong revenue and profit growth

Good performances in Nigeria and the GCC

Turkey impacted by excise and competitor pricing



Productivity programme

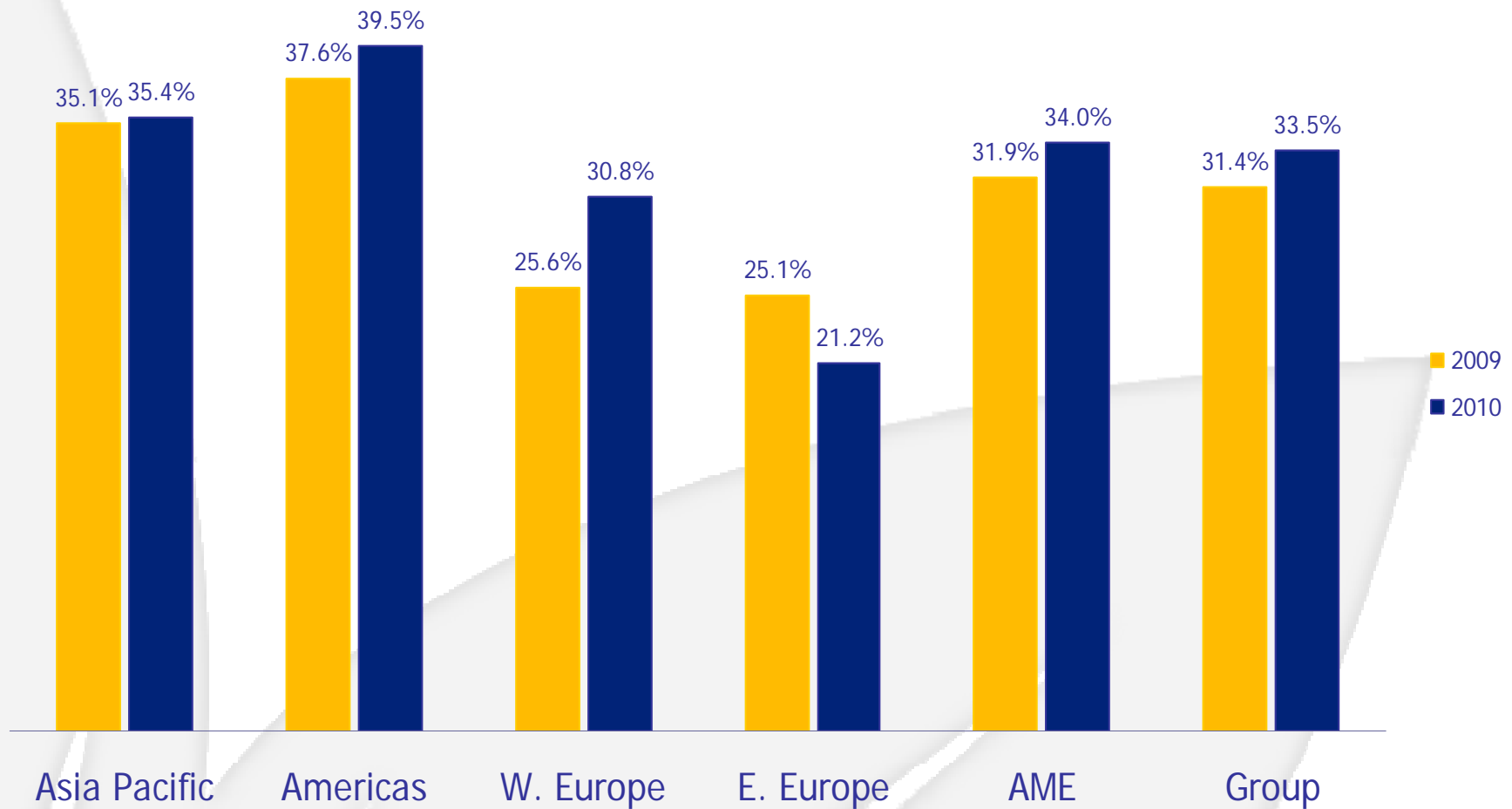


- £1 billion of annualised cost savings 2003 – 07

- £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*



* Based on adjusted profit

Drivers of adjusted EPS growth



	Pence	%
EPS 2009	153.0	
Profit performance	9.6	+6
Acquisitions	0.3	-
Net finance costs	2.1	+1
Associates	3.1	+2
Taxation	0.1	-
Minority interests	0.7	+1
Exchange	7.1	+5
Share issues	(0.3)	-
EPS 2010	175.7	+15

Cash Flow



	2010	2009
	£m	£m
Adjusted profit from operations	4,984	4,461
Non cash items	501	471
Increase in working capital	(61)	(100)
Net capital expenditure	(523)	(515)
Operating cash flow	4,901	4,317
Net interest paid	(491)	(499)
Tax paid	(1,178)	(1,095)
Dividends paid to non-controlling interests	(234)	(234)
Restructuring costs	(219)	(187)
Dividends from associates	461	238
Free cash flow	3,240	2,630
Operating cash flow % of operating profit	98%	97%
Free cash flow % of adjusted earnings	92%	86%

Cash Flow



	2010	2009
	£m	£m
Free cash flow	3,240	2,630
Dividends paid to shareholders	(2,093)	(1,798)
Net investment activities	-	(196)
Other net flows	(77)	(203)
Net cash flow	1,070	433

Net debt



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

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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