



South Africa BATSA

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September 2007





Global 2007 Mid-year profit from operations



Region	£m 2007	% Contribution
Europe	404	25.8
Latin America	386	24.6
Asia-Pacific	335	21.4
Africa & M East	249	15.9
America-Pacific	192	12.3
	<u>1,566</u>	
Unallocated costs	(45)	
Profit (excluding exceptional items)	<u>1,521</u>	



Africa & Middle East 2007 interims at a glance



Key metrics on or above trend

Volume

47bn

Revenue

£664m

Operating Profit

£249m



2007 Mid Year Growth in our region vs 2006



* @ Constant rates



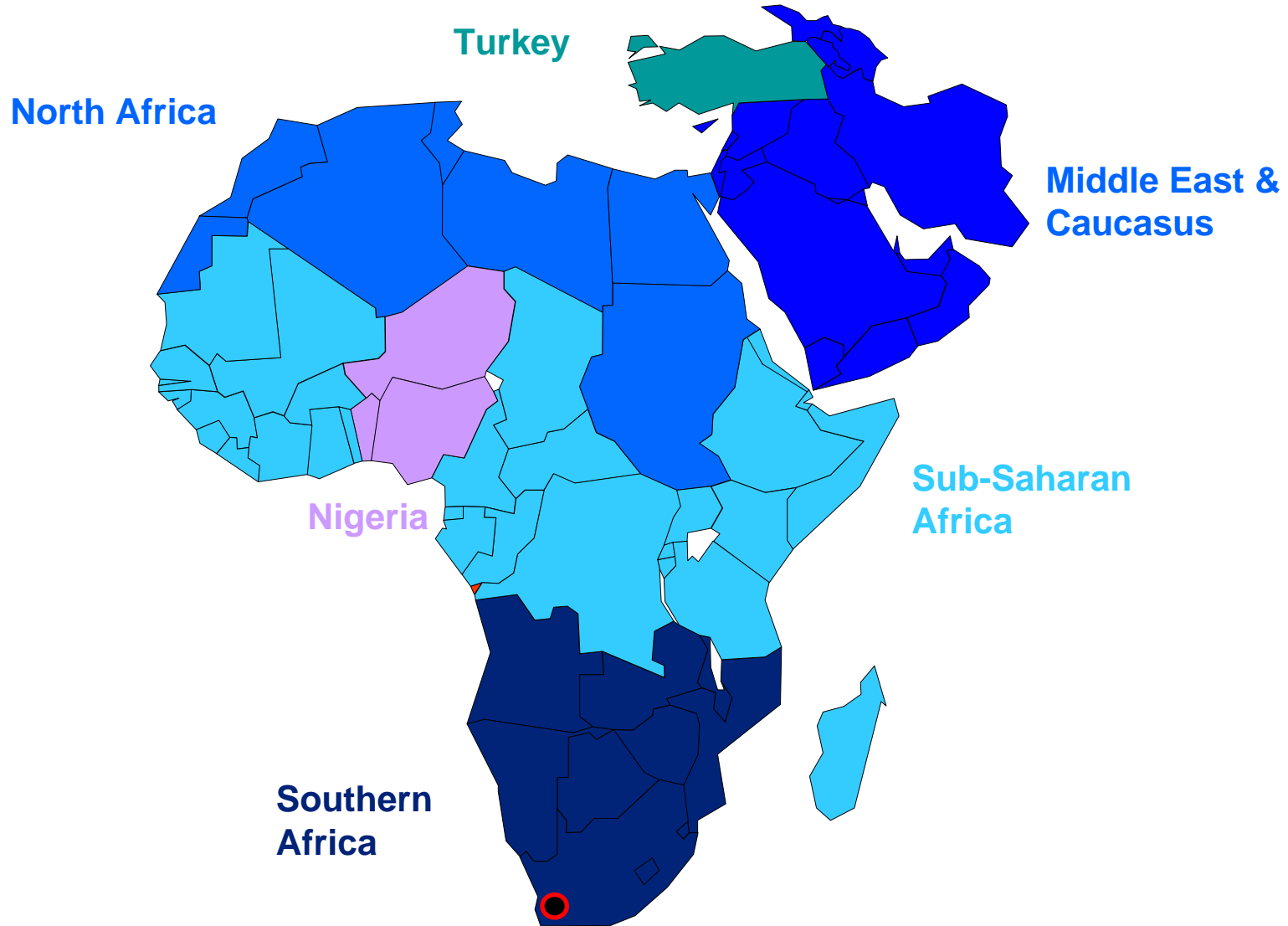
AGENDA



1	AME
2	South Africa Overview
3	BATSA - Living our Strategy
3.1	➤ Growth
3.2	➤ Productivity
3.3	➤ Responsibility
3.3	➤ Winning Organisation



BAT Africa Middle East Region





Executing on Global Strategy





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South Africa at a glance



Population total: 46 mns

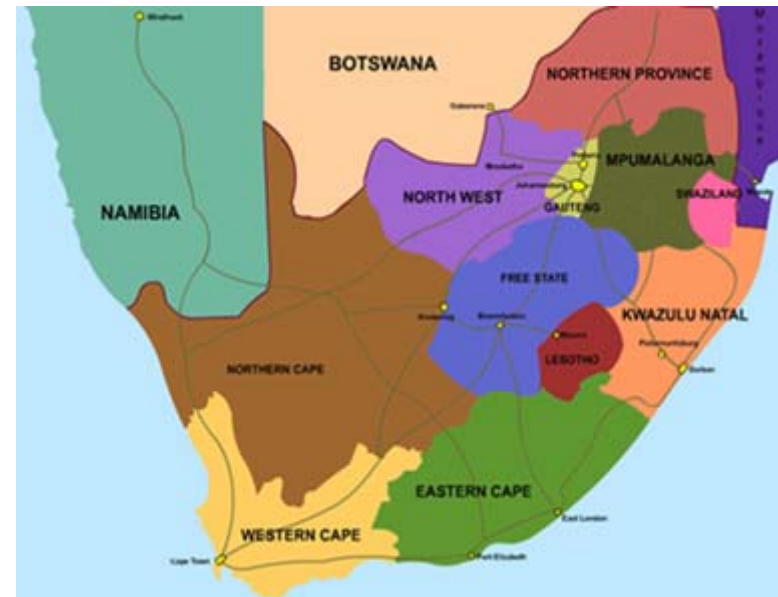
Population 18-65: 27 mns

Economy 2007 forecast

- GDP (% y/y) 4.5%
- Inflation 6.6%

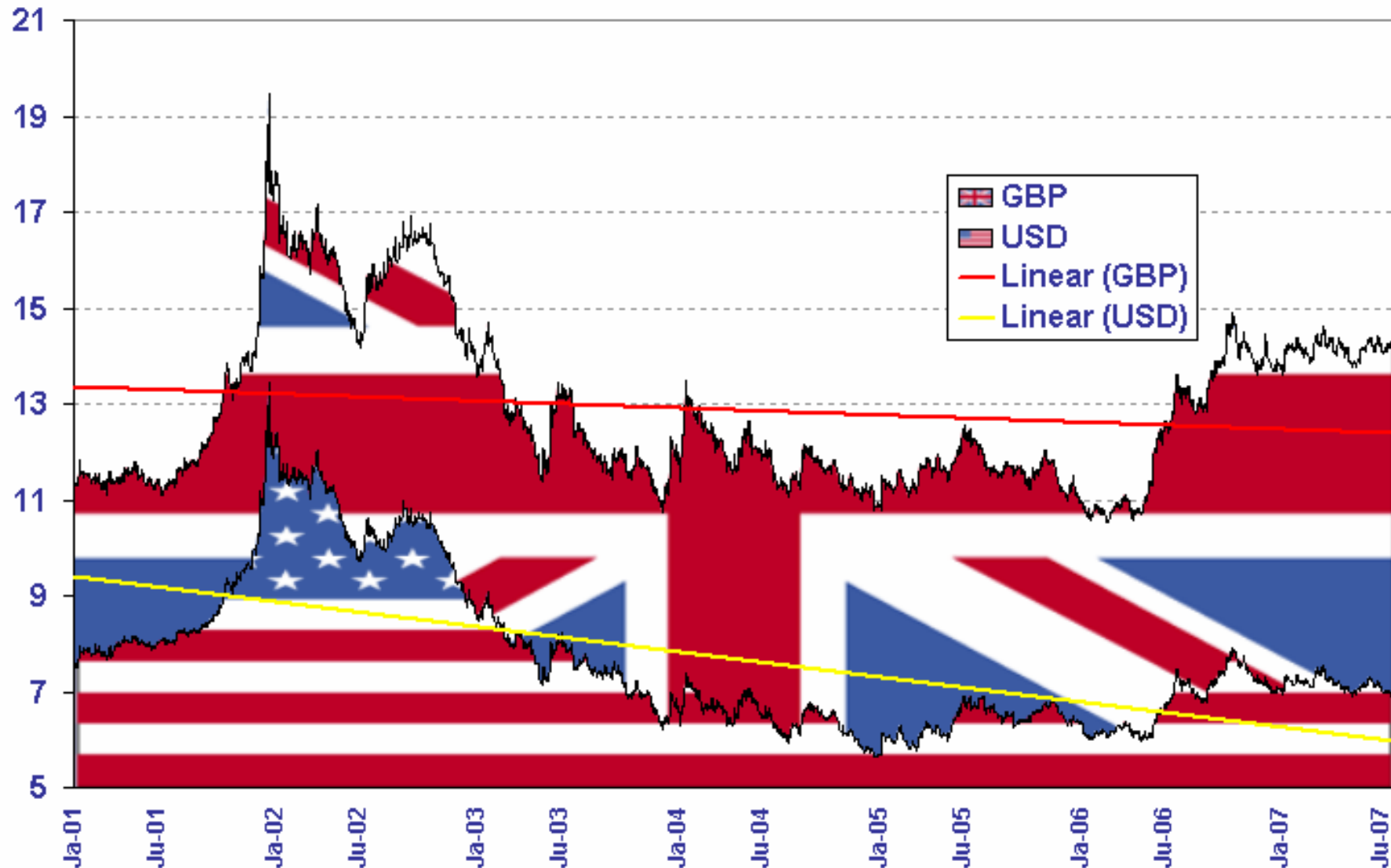
Smokers 18-65 years

- all tobacco products: 27.7% = 7.5 m
- regular cigarette smokers: 23.6% = 6.3 m



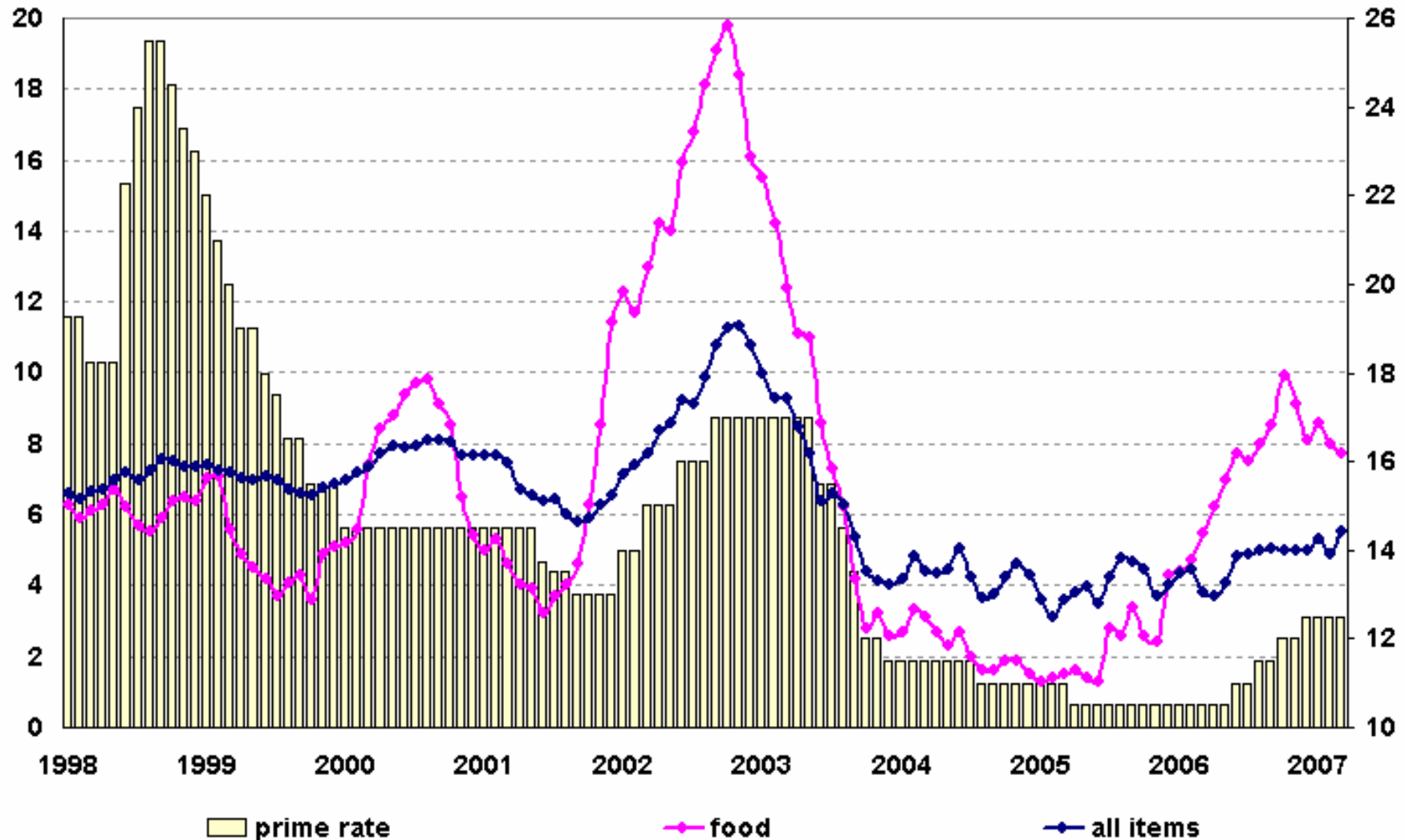


Rand volatility seems to be stabilising, but....





Inflation targeting has resulted in a increase of the prime lending rate



Source: ACNielsen / RBSA



Economic & per capita income growth

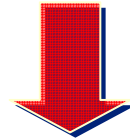


Economic Growth p.a



- 1947-1976 (29 yrs) = **4.7%**
- 1977-1992 (16 yrs) = **1.6%**
- 1993-1999 (7 yrs) = **2.3%**
- 2000-2003 = **3.0%**
- 2005-2009 = **4.0%+**
- 2014+ = **6.0%+**

Population Growth



- 1980's = 2.5%
- 1996 = 2.0%
- 2003 = 1.3%
- 2007 = **-0.3%**
- 2010 = **-?**



Black diamonds, the drivers of our economy



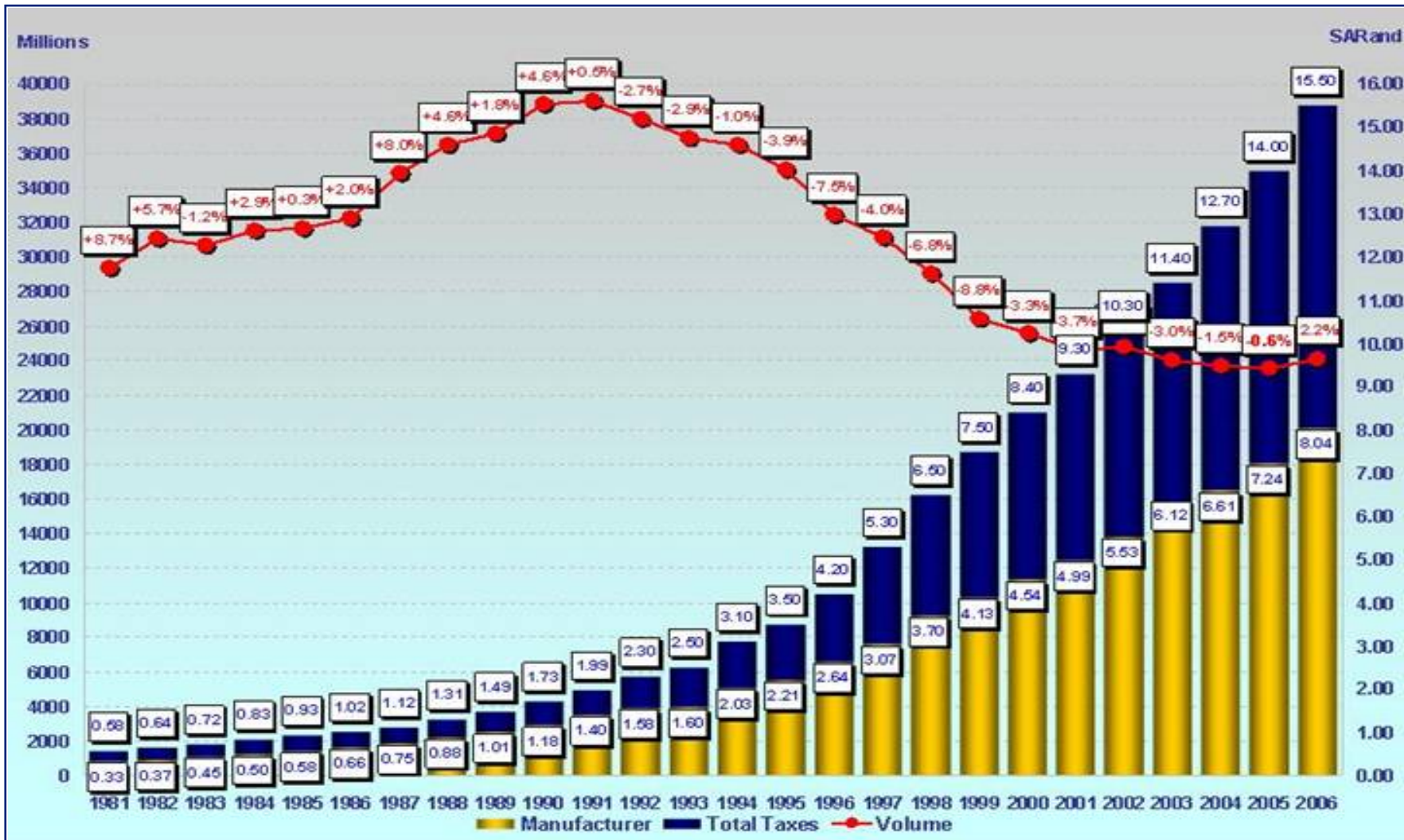
- Black middle class grown by 30% in one year → 2.6 million
- Spending power of black diamonds risen from R130 billion to R180 billion
- 2% of South Africa's black population account for 54% of all black buying power vs 10% accounting for 43% 15 months ago



Source: Unilever Study



Price vs Volume – excise and price increases driving total industry volume decline

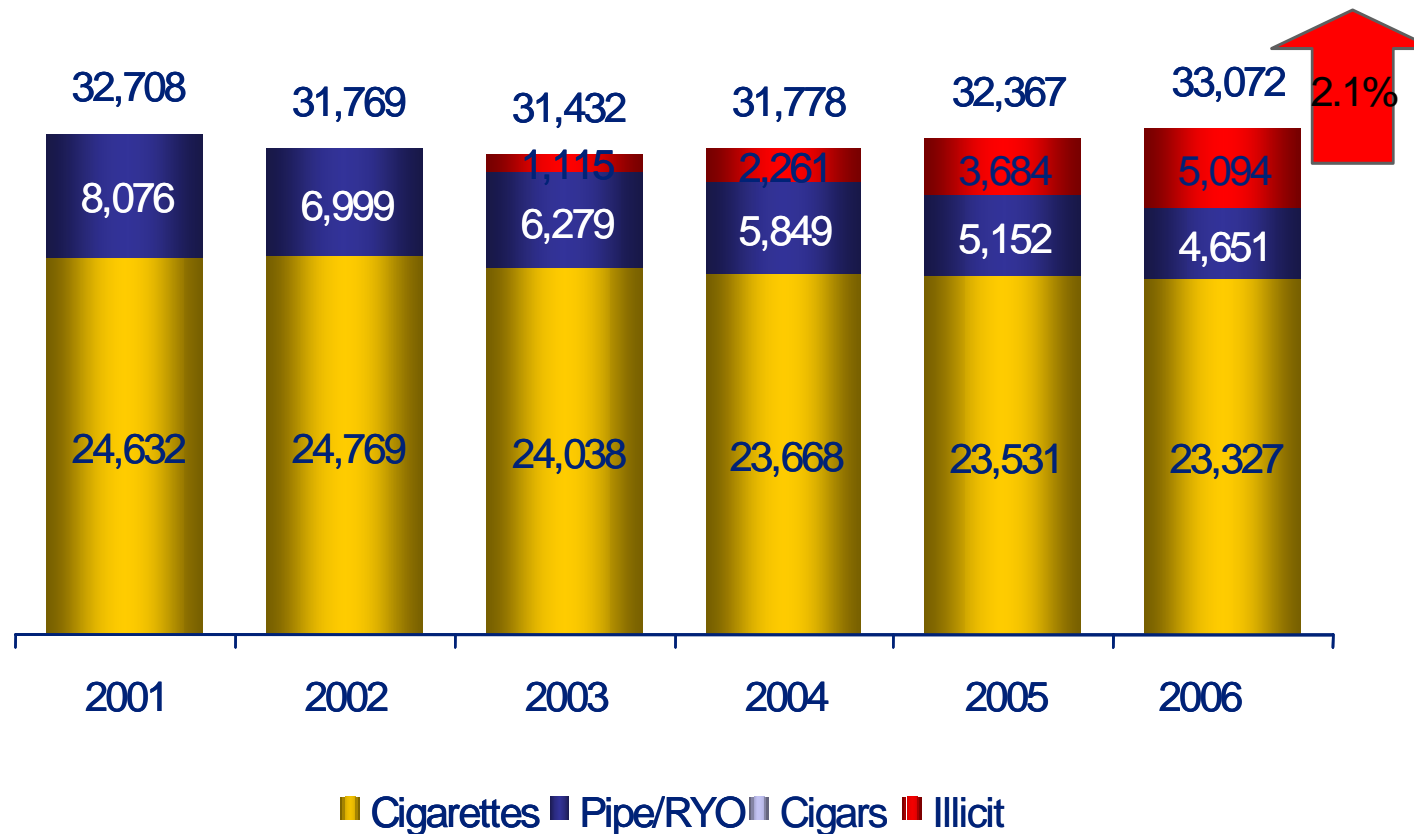




Our research however reports a growing total tobacco market

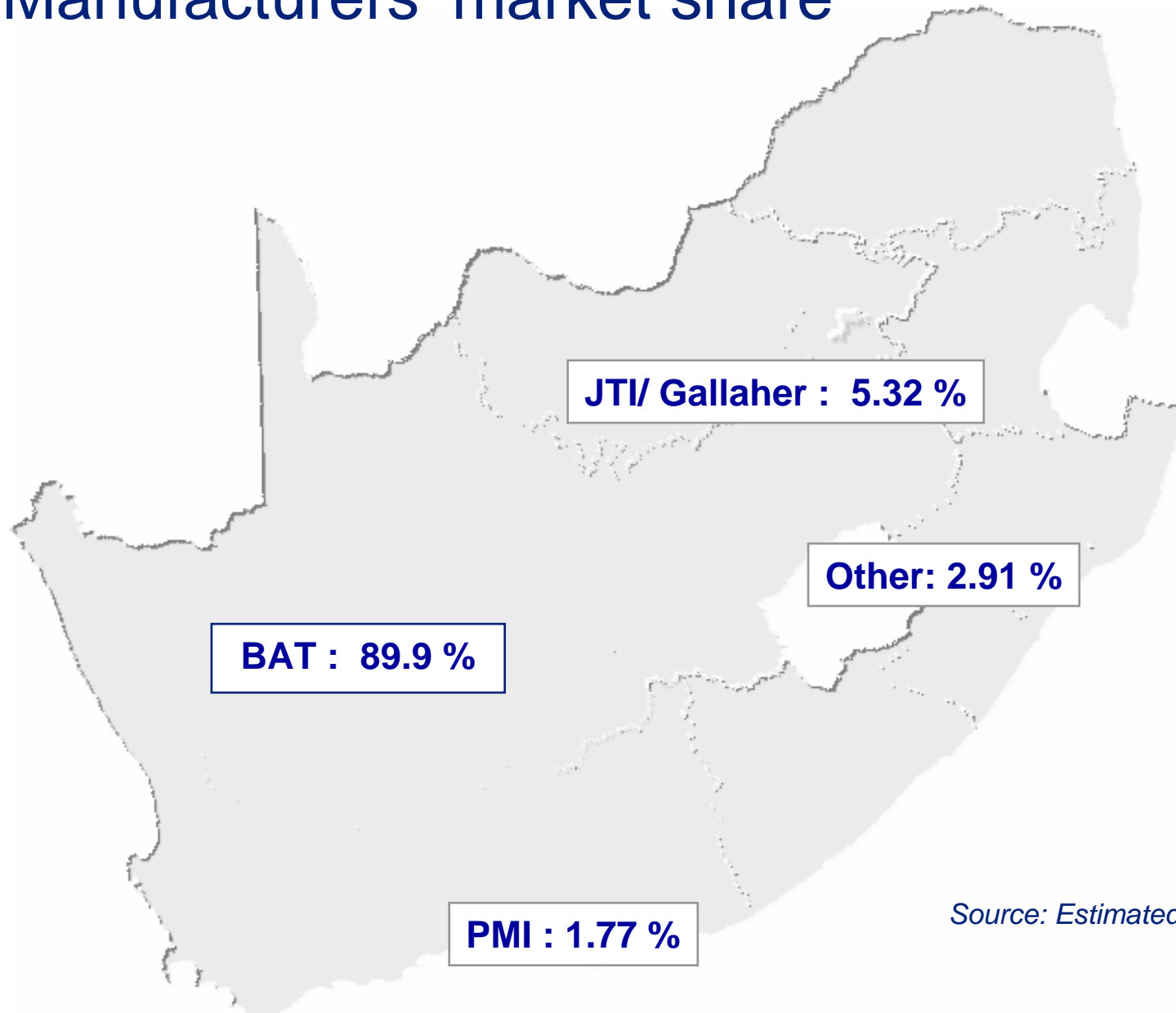


- Historical slow steady volume decline - 2% p.a.
- BATSA invests in research (Gauteng '05 & national '06)





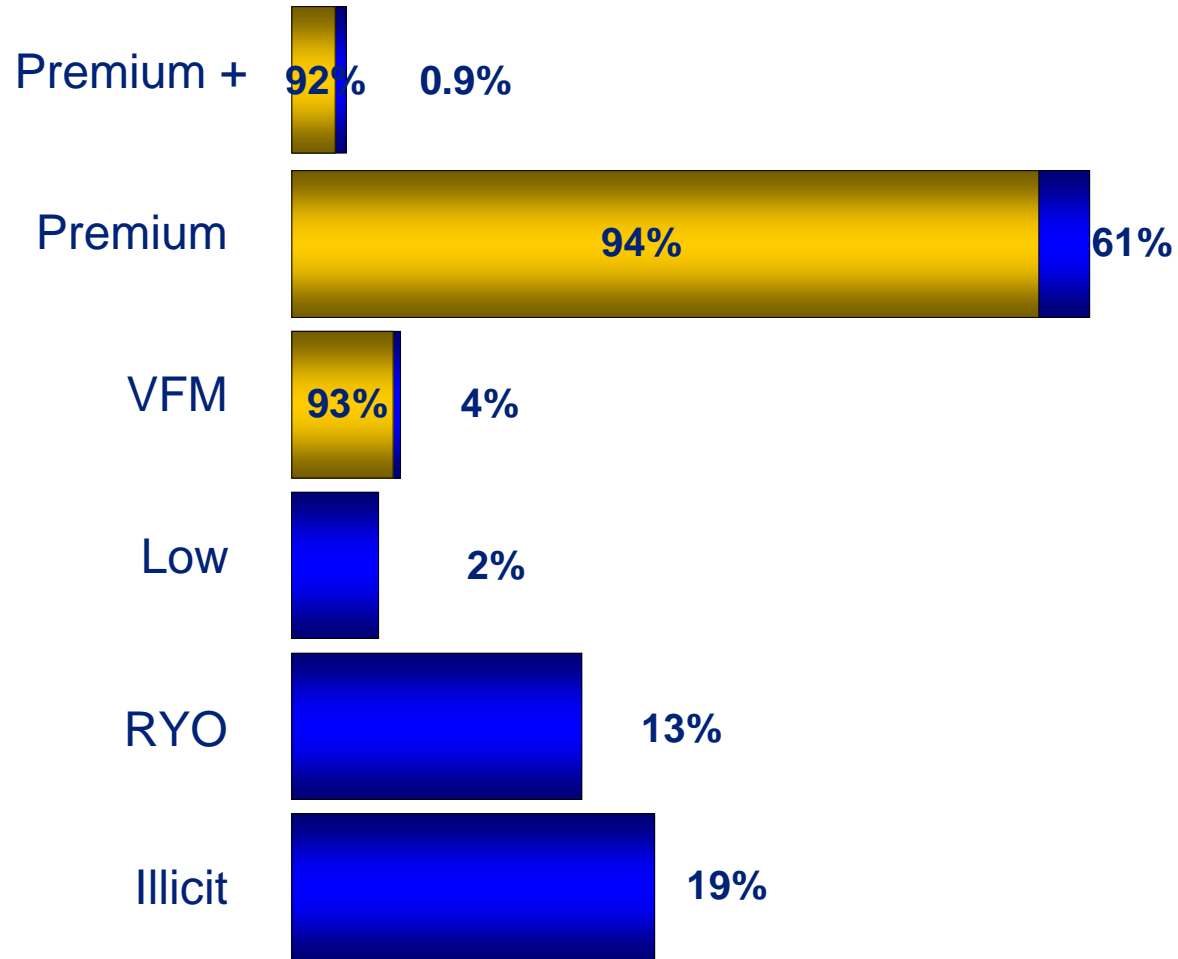
South African legal players – Manufacturers' market share



Source: *Estimated Sales (Q2 2007)*



Local cigarette market positioning



Source: Estimated Sales, ACNielsen, Excise Removals, Research



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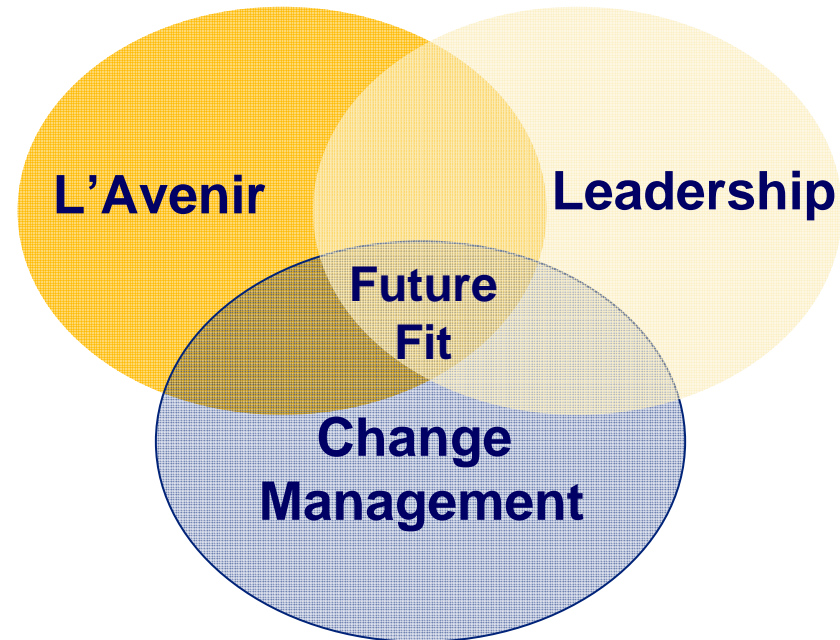


Executing on Global Strategy

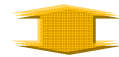




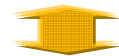
Future fit strategy



Future fit = L'Avenir + OneLeader + Change



Growth, Productivity, Responsibility, Winning Organisation



Long-term sustainable organisation



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Diversified Brand Portfolio



- Focus on International and Premium brands, Lights and adult smokers under the age of 30 (ASU30)
- Global Drive Brands
 - Dunhill
 - Kent
 - Lucky Strike
- International brand
 - Peter Stuyvesant



KENT

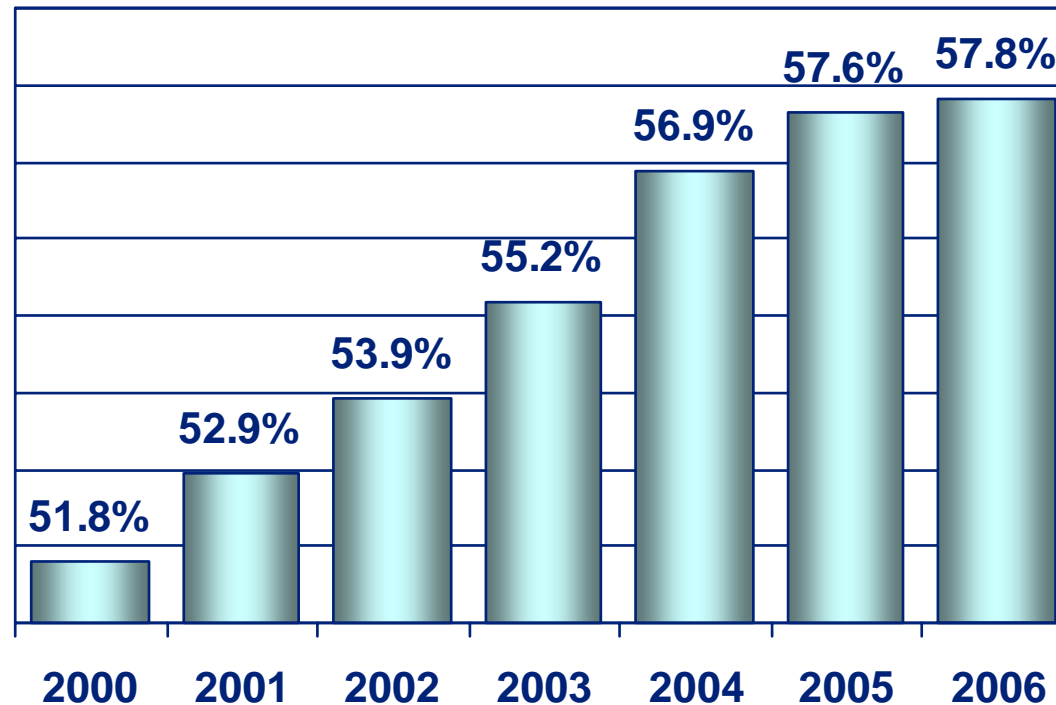




BATSA Drive Brand Growth



- Consumer focussed Drive Brand portfolio
- Our focus and innovation has shown exceptional results

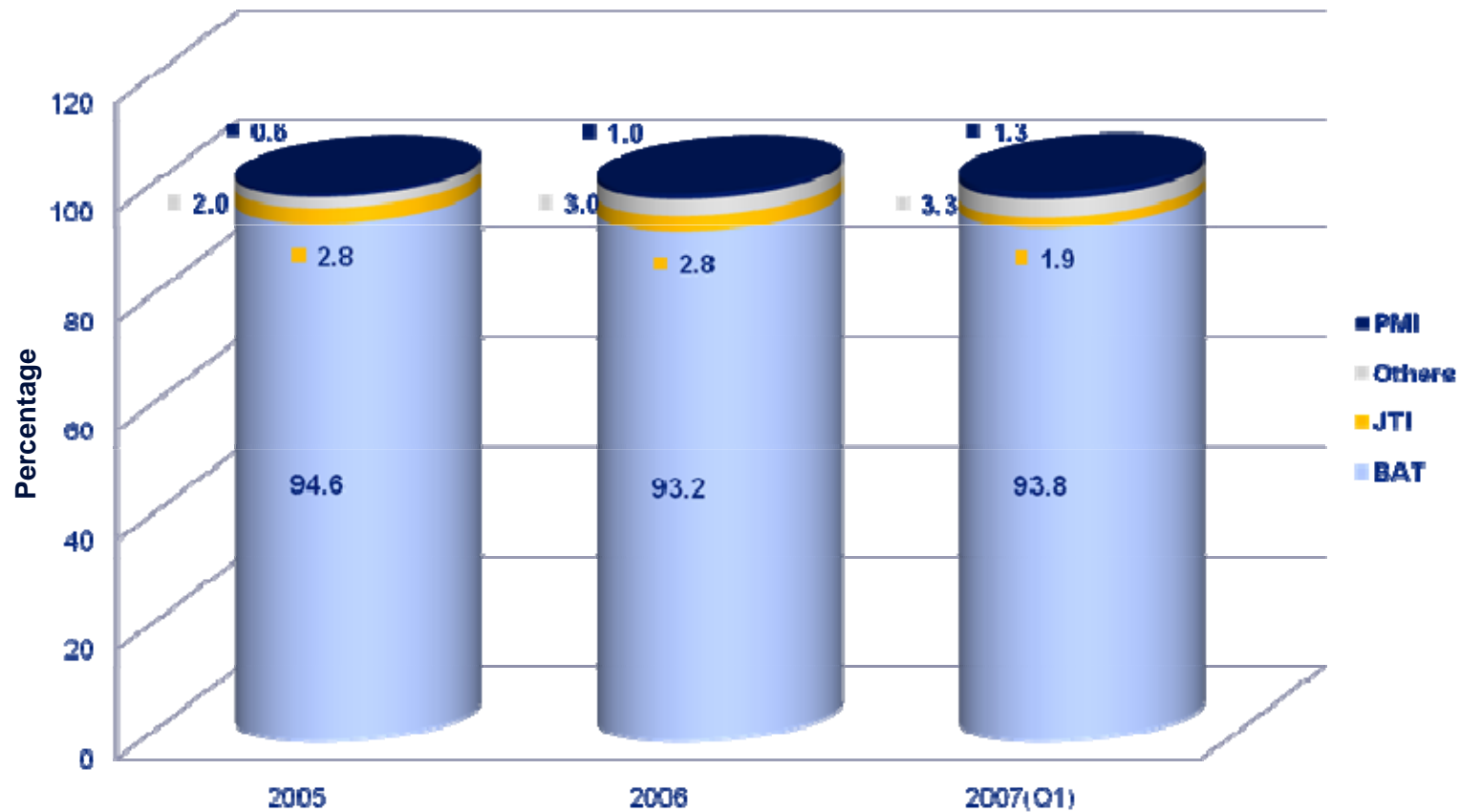




BAT has continued to gain share in ASU30 segment



ASU30 Performance



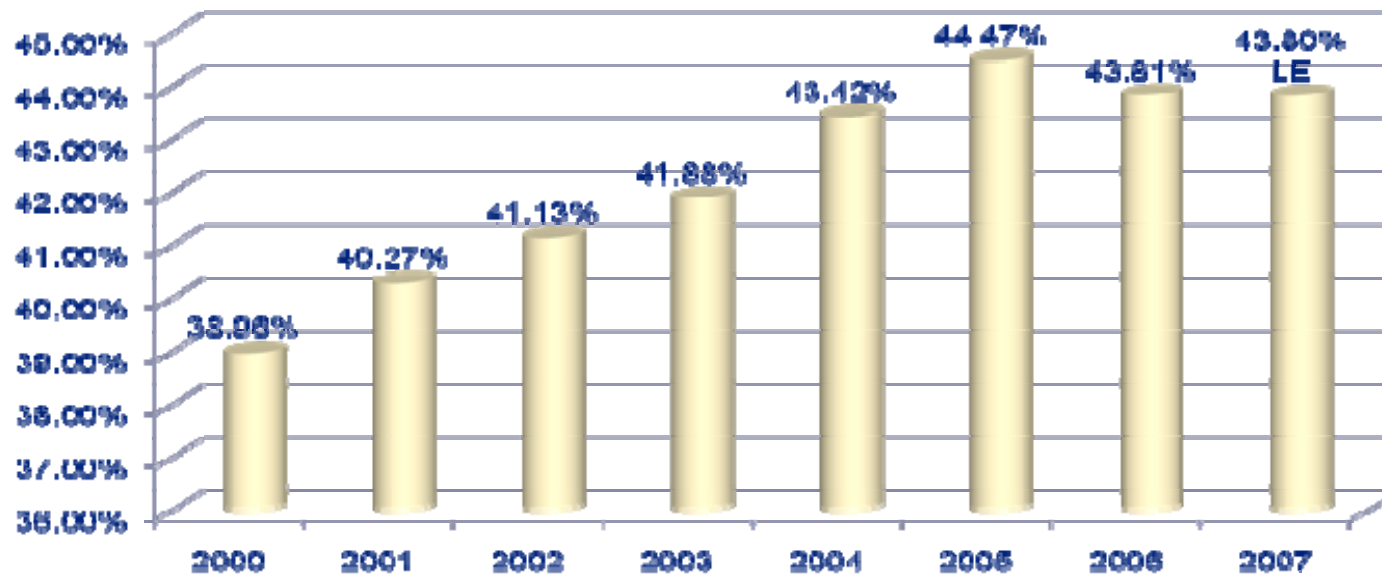


Peter Stuyvesant maintains market lead position



- Maintain relevance through innovation
- ASU30 Growth

Peter Stuyvesant SOM%



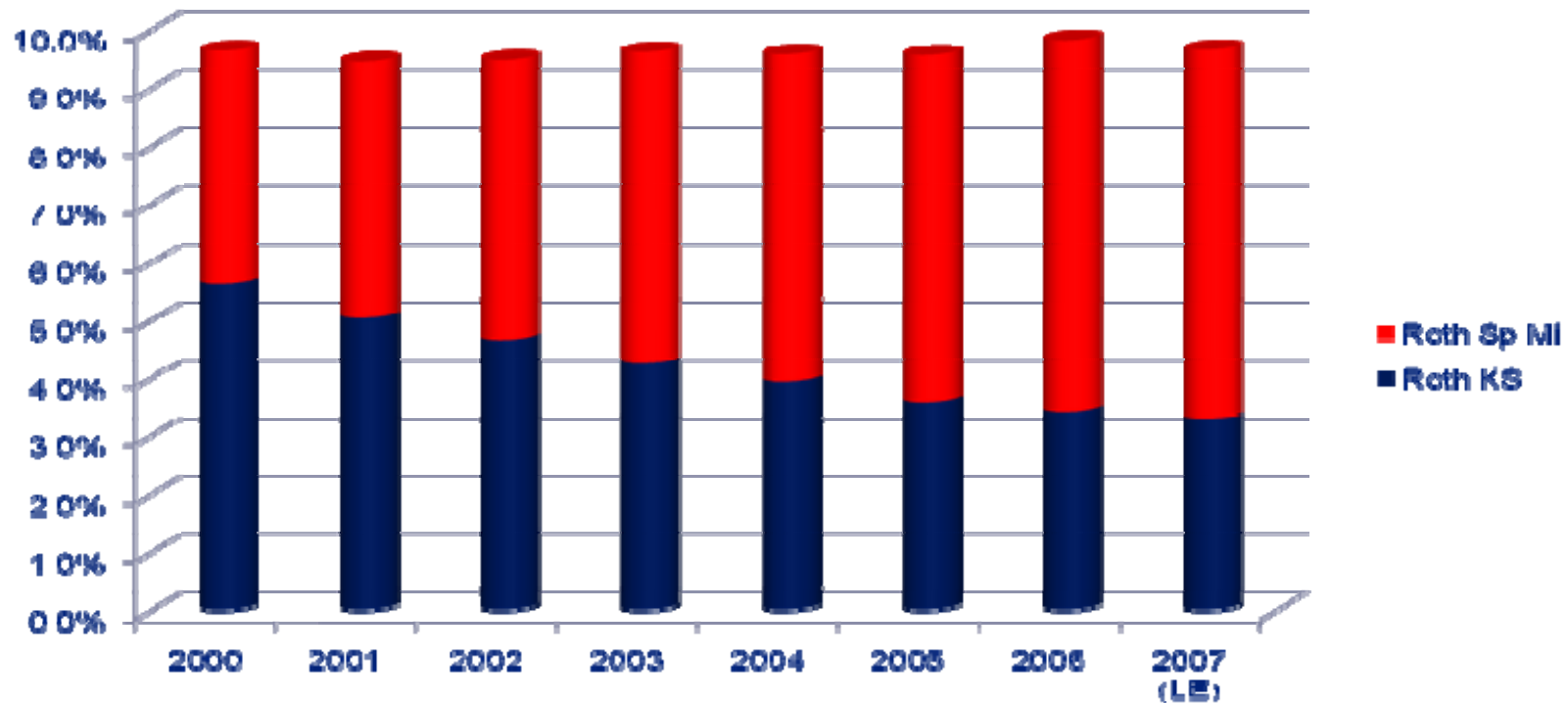


Rothmans Range



- Innovative pack design
- Improved brand equity

Rothmans SOM%





SNUS



- 65% increase in average monthly sales pilot versus test
- Promising test market performance



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Supply Chain - enhancing our agility and flexibility



- Paarl factory closure announced Nov '06
- Identify potential opportunities to enhance focus with a flexible response to market need

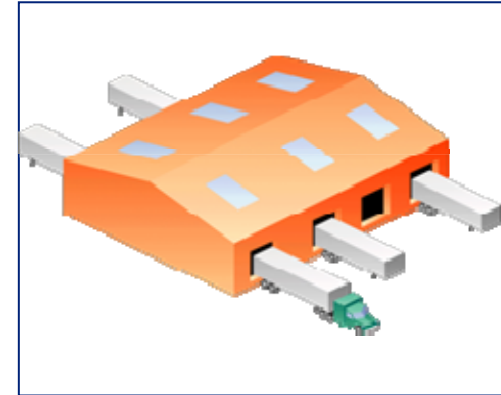




Business model transformation



- Striving for improved
 - Focus
 - Outsource of non-core
 - Form alliances for external expertise
 - Agility
 - Respond to market demand
 - Perform retail investigation
 - Flexibility
 - Support global drive





Heidelberg Expansion



- Global production
- Multiple sourcing
- 2/3 shifts per day
- Doubled capacity

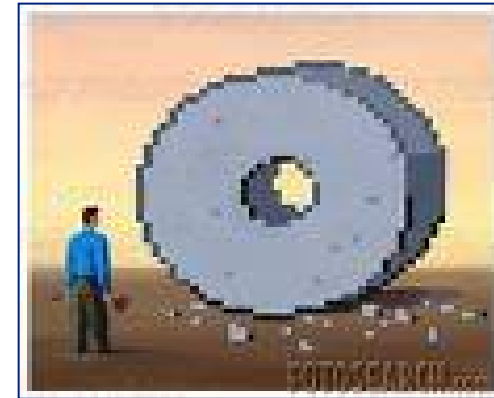




Outsourcing / Alliance partnering



- Dialogue
 - Call Centre
- DHL
 - Logistics
- AME
 - Above market Roles
- GSD
 - Global technology service provider
 - IT supply team



Shared Services



IT



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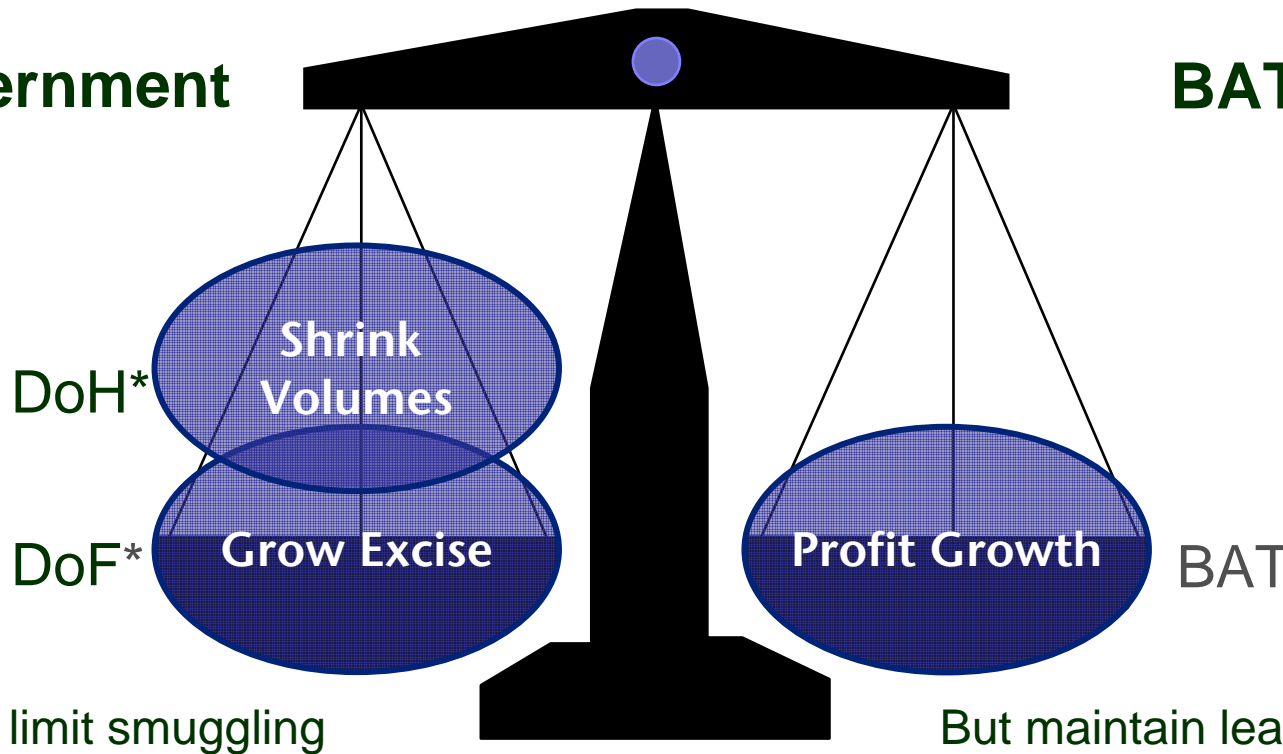


Sensible and sustainable regulation



Government

BATSA



*DoH – Department of health
*DoF – Department of finance



Successful Stakeholder Management



- Sweden Study Tour
- 3 year moratorium on excise (2004-2006)
- Research impact - Min of Finance's Budget speech

“There’s a point of efficiency in taxes. If you look at the issue of cigarettes, if you push the price too far it becomes exceedingly profitable for smugglers to smuggle cigarettes whether fake or real from elsewhere in the world”



Ensuring our Social Relevancy



THE BRITISH AMERICAN TOBACCO
BIODIVERSITY PARTNERSHIP

Business to

Community

**COMPANIES
THAT COUNT** 2007



RMS

**MARKETING
STANDARDS
2001**

SMC

Standards of
Business Conduct
British American Tobacco



The only way to avoid smoking related health risks is not to smoke
AND THE BEST WAY TO REDUCE THESE RISKS IS TO QUIT.



**Dow Jones
Sustainability Index**
Member 2006/07





BATSA has been continuously engaged with the regulator



▪ **Regulator Focus Areas**

- LIP, PPS guidelines, manufacturing standards and research and marketing data submission
- Graphic Health warnings, pack size and design, POS guidelines, under18 access, limitations on CSI and 1-1 communications

▪ **Competitions issue**

- 2002 - JTI complained to BATSA about retail marketing practices
- 2003 - JTI lodges a complaint with the Competition Commission
- 2005 - The Competition Commission refers certain sections of the complaint to the Tribunal
- 2007 – The Competition Tribunal hearing (August)



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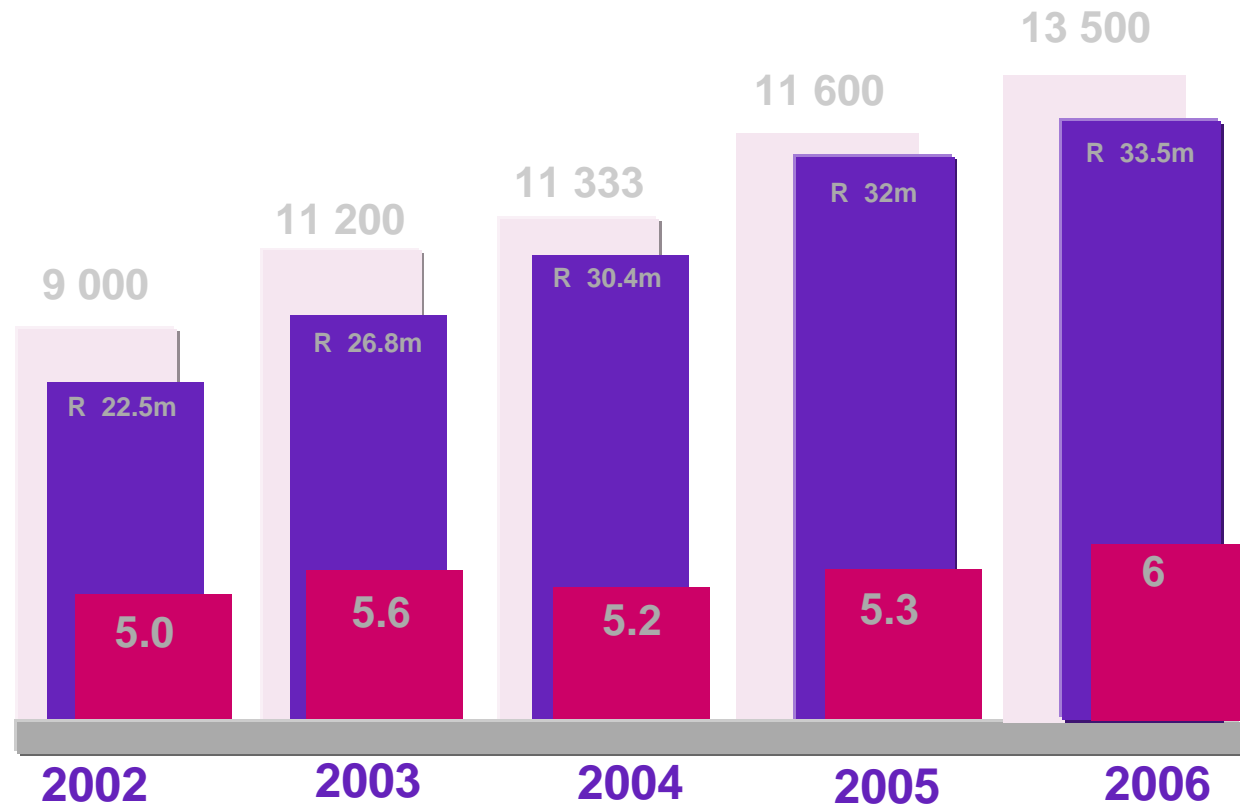


Investment in people



BRITISH AMERICAN
TOBACCO
SOUTH AFRICA

Training events Spend % payroll



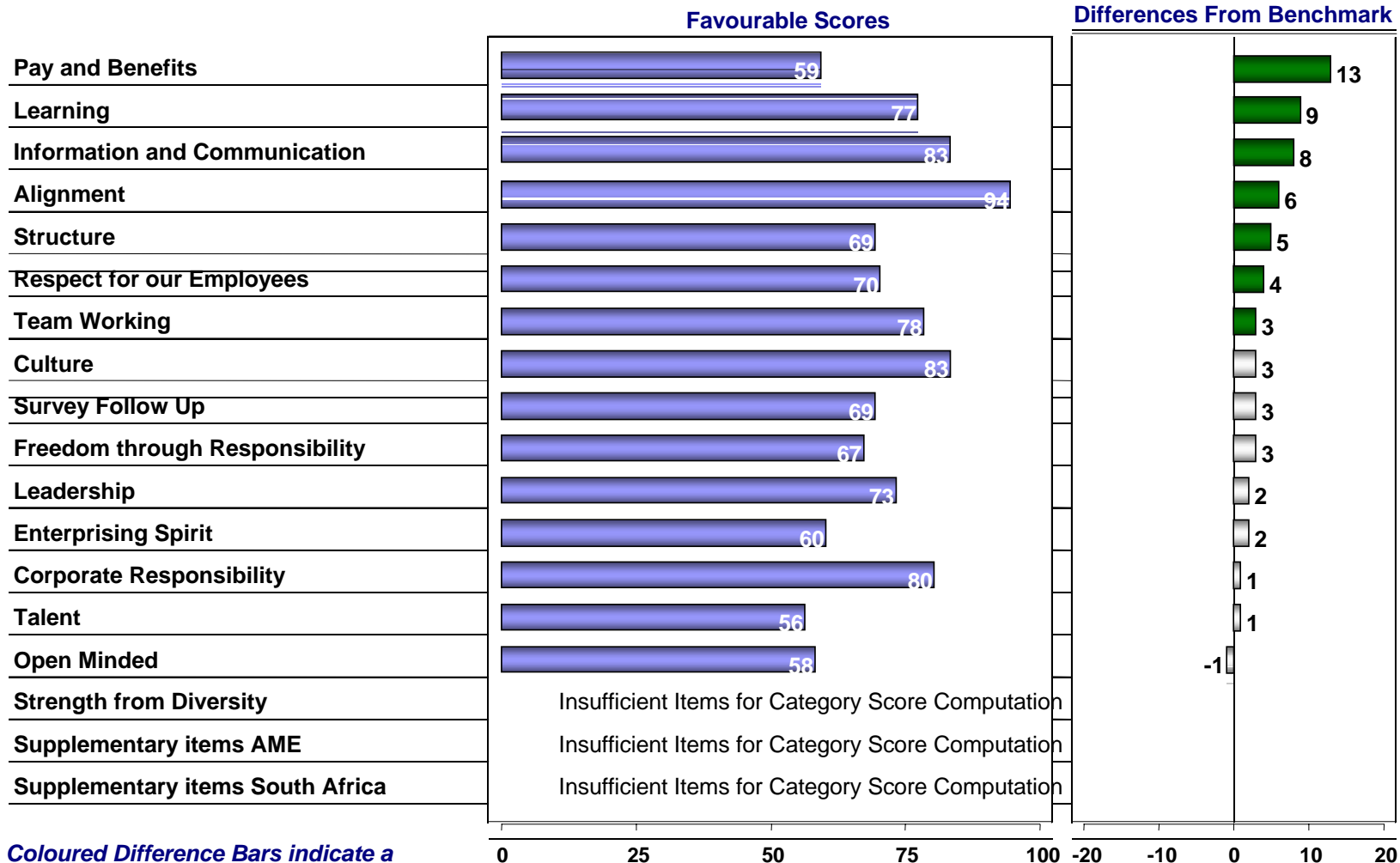
As an investor in people, we rank amongst the top companies in SA



Our investment in people allowed us to stay ahead of our peers



Category Scores Ranked By Difference From Benchmark
 SOUTH AFRICA COMMERCIAL (792) vs. ISR SOUTH AFRICA NATIONAL NORM (38582)



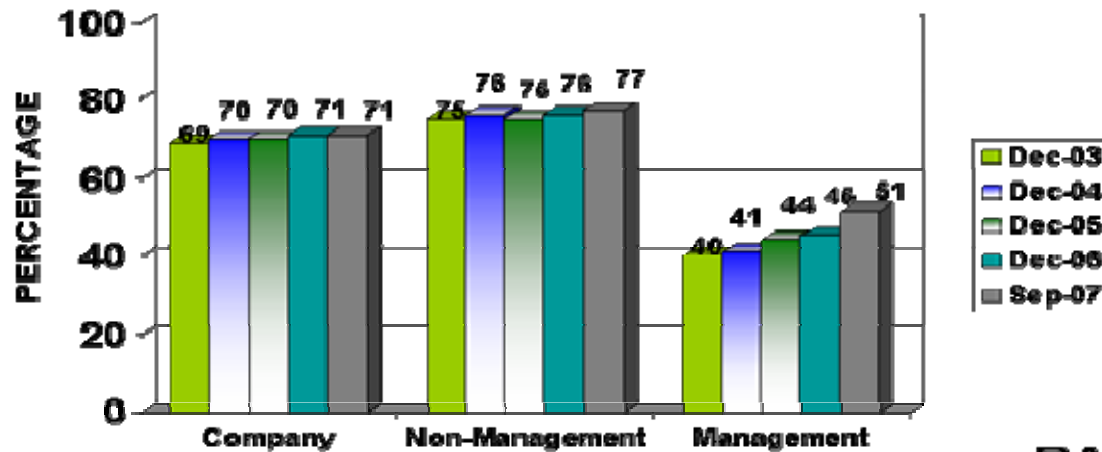
Coloured Difference Bars indicate a statistically significant difference



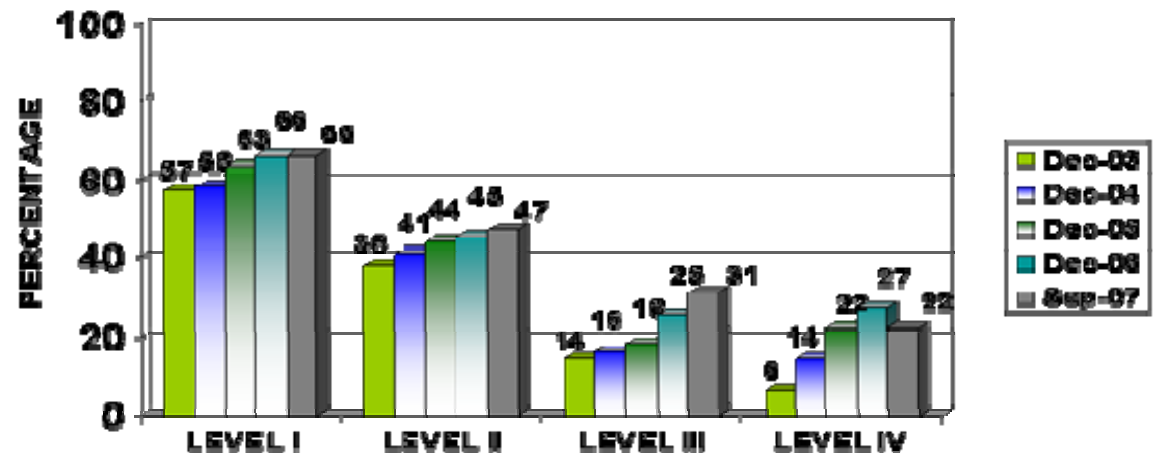
Successes in changing the profile of BATSA – Employment Equity



BAT SA Representation



BAT SA Management

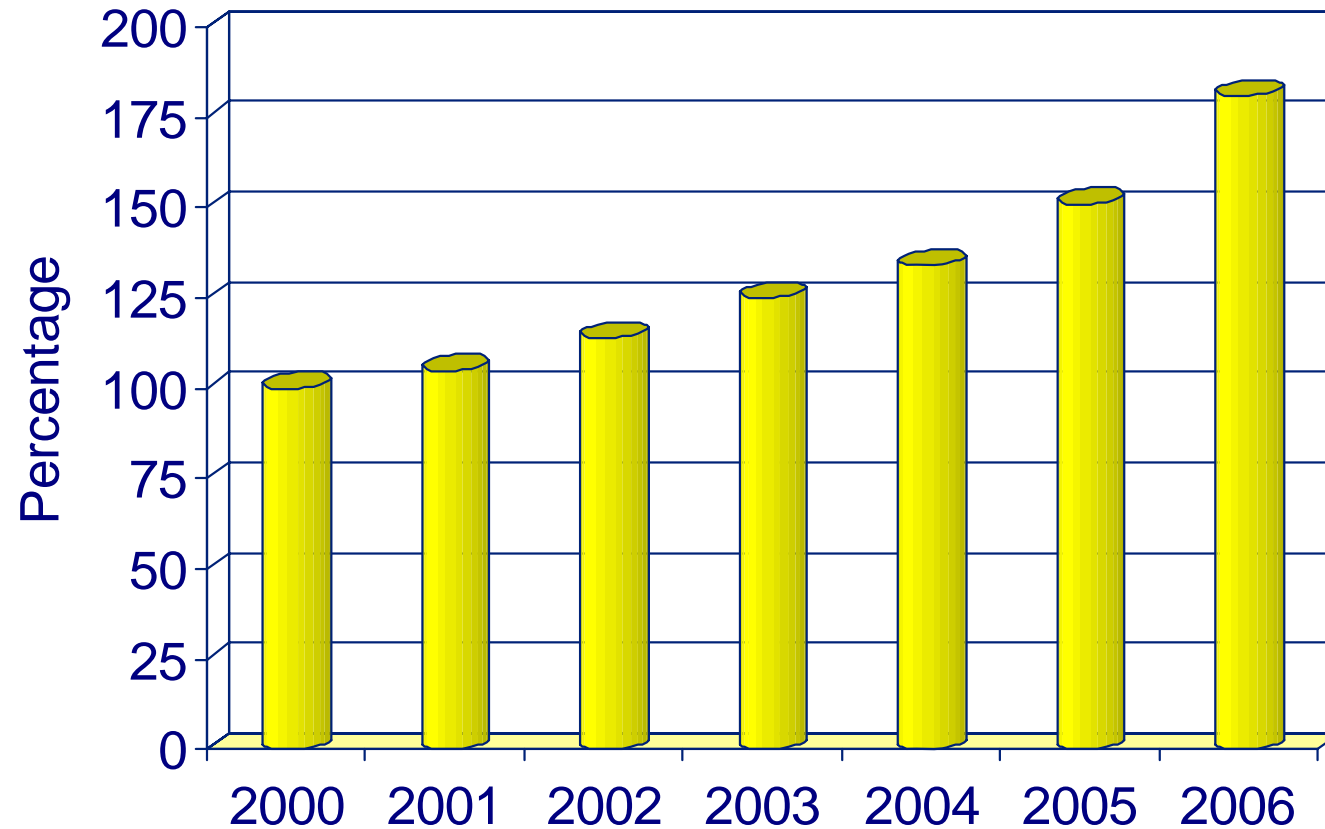




BATSA profit growth



- Business model
- Innovation
- Focused response





Does BAT global strategy drive sustainable end market performance ?



- Absolutely!!
 - Innovation
 - Business Model Changes
 - Bold Supply Chain decision making
 - Focussed response to Consumer and Societal needs
 - Excellent core stakeholder engagement
 - Creating a great place to work

Every day, every interaction with every customer,
every employee and every year end result