



# Managing the challenges in the Americas

Mark Cobben





# Agenda



## REGIONAL HIGHLIGHTS

MEXICO TURNAROUND

CANADA TURNAROUND

SUMMARY

# The tobacco industry in the Americas

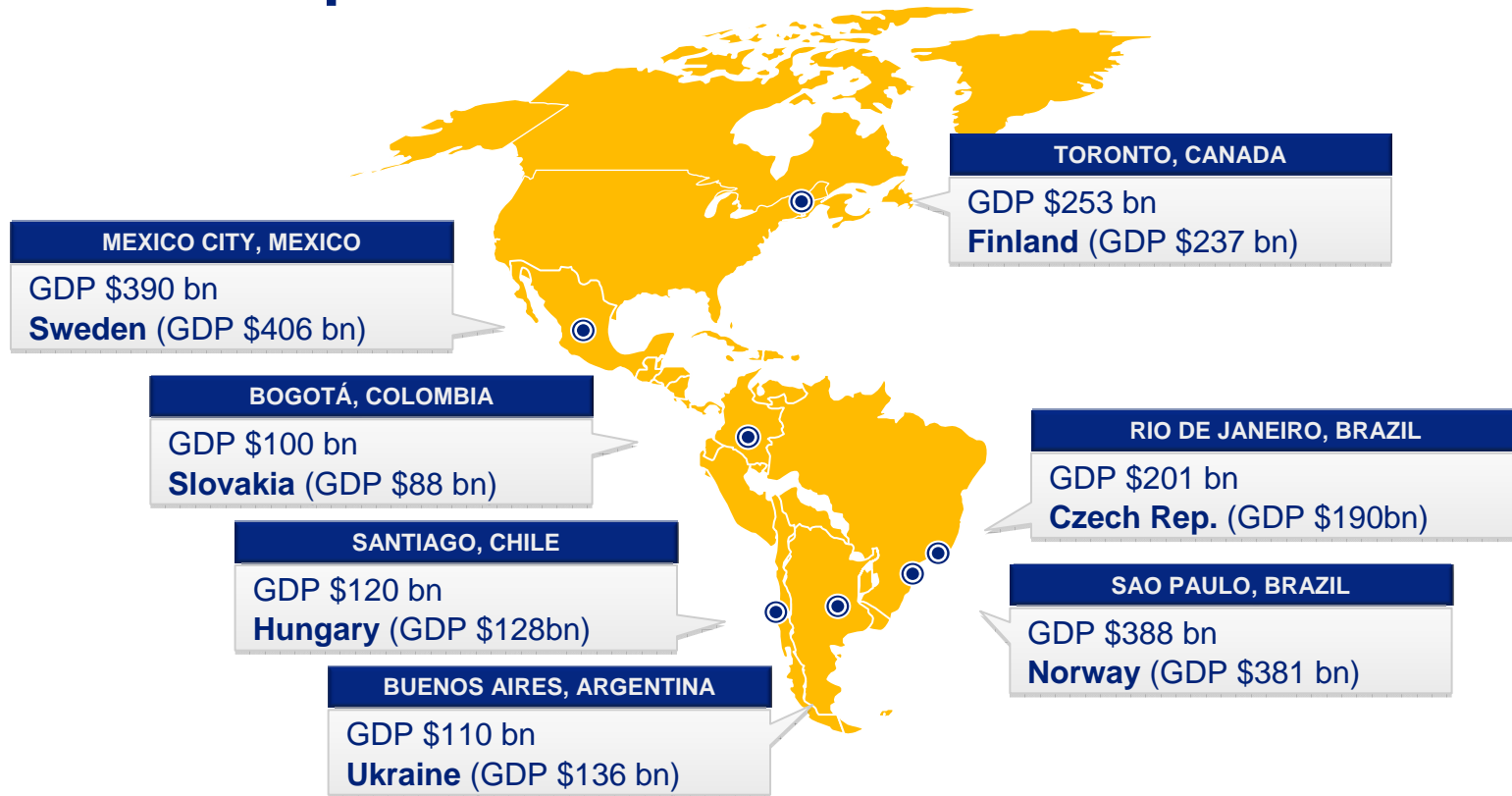


DIMENSION	2008	2010
Consumption volume (bn)	345	306
Industry value (£ bn)	15.7	19.7
BAT volume (bn)	161	149
Other international companies (bn)	110	92
Local companies (bn)	20	19
Illicit trade (bn)	54	46
Outlets managing category / BAT direct coverage	2 mn / 66%	2mn / 66%

Source: Company estimates, values in £ refer to cigarettes duty paid

**A REGION WITH GROWING CONSUMER WEALTH AND INDUSTRY VALUE**

# The key cities match the economic power of some European countries



# Driving our strategic portfolio



**GDB growing 54% vs. 2009**



**Volume +187%**

8.7 billion sticks

**KENT.**

**Volume +3%**

2 billion sticks



**Volume +38%**

4.3 billion sticks

**PALL MALL**

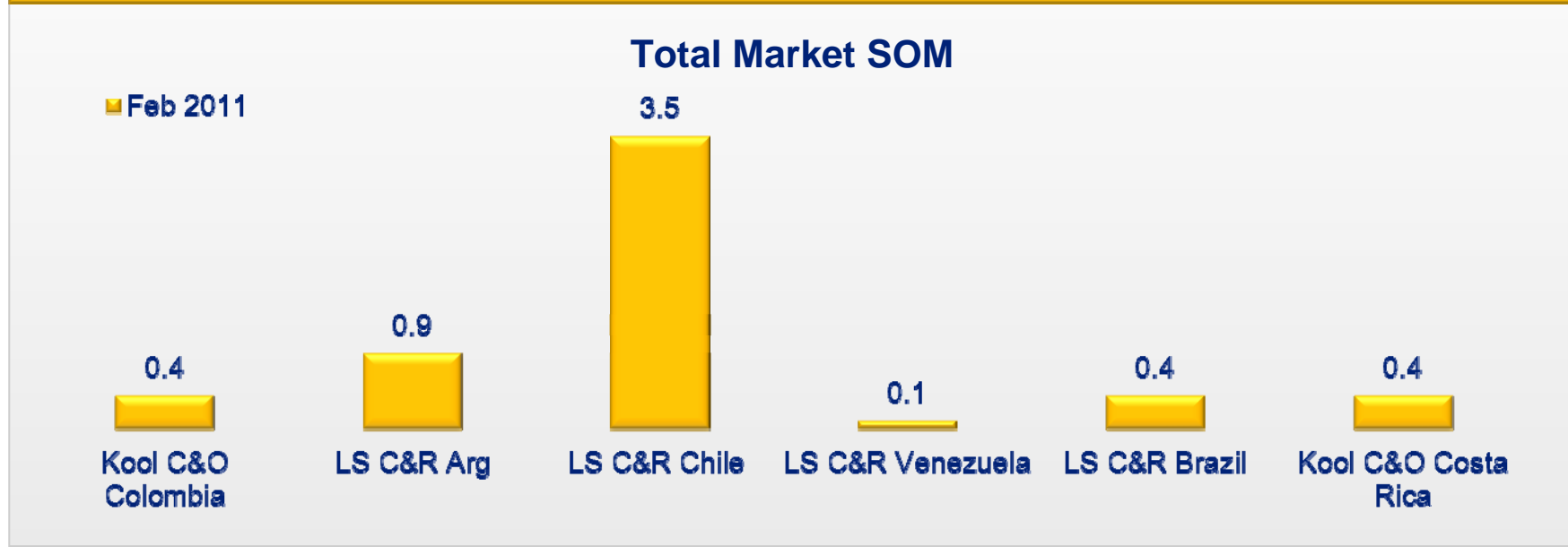
**Volume +21%**

9.5 billion sticks

# Outstanding regional performance of convertibles



CONVERTIBLES REACHING THE HIGHEST SOM OF ANY INNOVATION ACROSS THE REGION

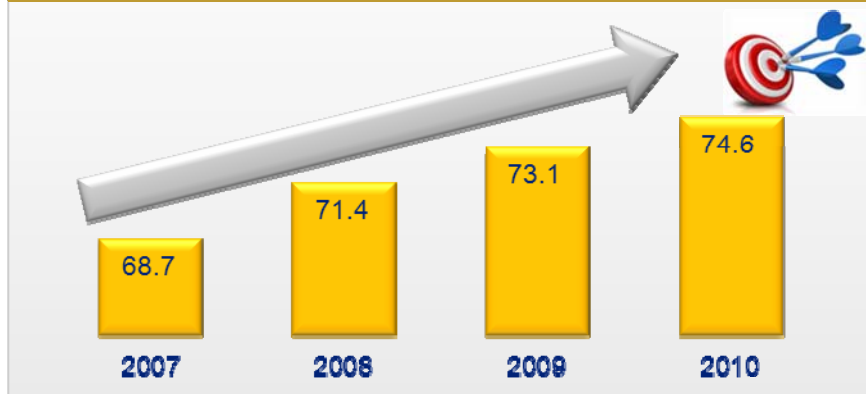


Source: Nielsen

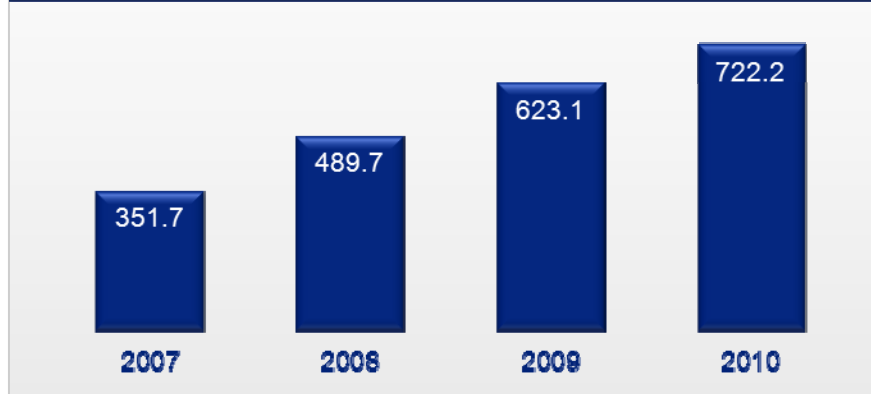
**LUCKY STRIKE GROWING THE CORE AND CONVERTIBLES SKU**

# Brazil...showing consistent SOM growth

BAT CONSISTENT SOM GROWTH



UOP (£m)



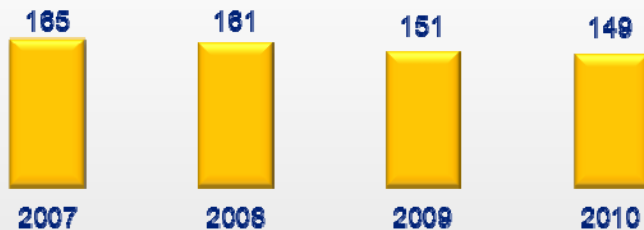
REACHING 8.7% SOM (+0.5 PPS VS 2009)



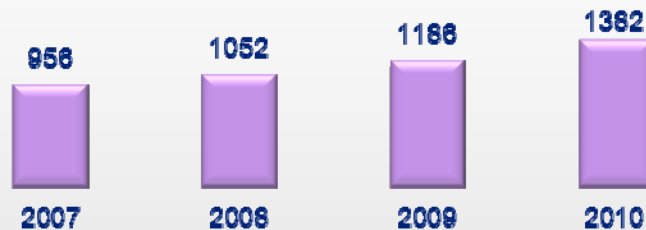
REACHING 14.0% SOM (+1.0 PPS VS 2009)

# Consistently strong performance

VOLUME (BN STICKS)



PROFIT (£m)



BAT SOM



Operating Margin %



Operating Margin per mille



Source: BAT Reports based on adjusted profit @ current rates and Nielsen

**12% CAGR DESPITE LOWER VOLUME**





# Agenda



**REGIONAL HIGHLIGHTS**

**MEXICO TURNAROUND**

**CANADA TURNAROUND**

**SUMMARY**

# Mexico: 14th largest economy in the world



- 6th largest oil producer
- Top 10 tourist destination
- 15th largest in international trade



## Key demographics:

Population: 110 Mn  
21% ASU 30  
50% Male / Female

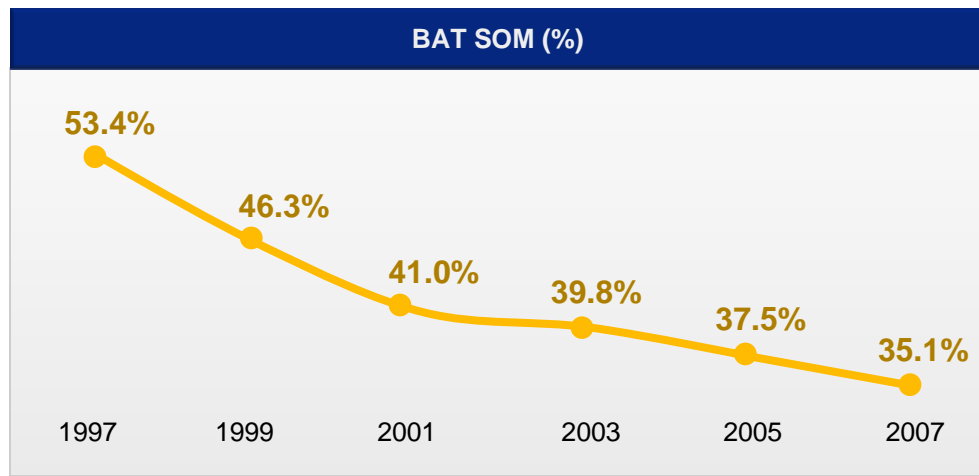


## Economy:

35% below poverty line  
77% urban  
US\$ 8.000 GDP per capita

# BAT Mexico - background

- Until 2006, delivering on financial expectations
- Declining share of market, consistently year on year
- In 2007 profit starts to decline
- Potential faster decline in the near future: excise increase
- Weak and fragmented portfolio
- Issues with enablers: TM&D and People
- A case for change



Source: Shipments

# BAT Mexico - turnaround masterplan

## ■ Build a quality portfolio

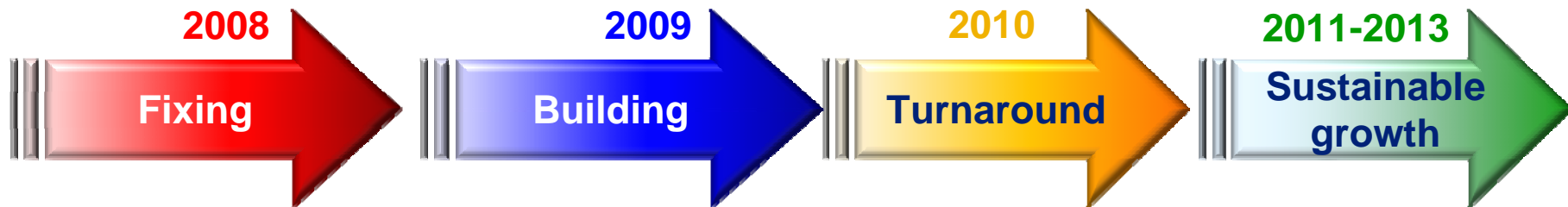
- Redefine premium
- Defend and strengthen below premium leadership by reversing decline

## ■ Regain TM&D competitiveness

- Expand /Maximise DSS and communication in POS

## ■ High performance organization

- Alignment & Leadership



# BAT Mexico - TM&D competitiveness



Evolved TM&D into a competitive advantage through focus on 2 strengths:

- Expand DSS footprint improving effectiveness and efficiency of salesforce

	2008	2010
POS served (#)	174,000	216,000
Sales through DSS (%)	45%	66%

- Improved quantity and quality of communication at POS, supporting destination portfolio

	2008	2010
Weighted coverage of POS communication	20%	63%

# BAT Mexico – market share

## DSS outlets only



SOM CONSISTENT GROWTH SINCE Q2 2009, REACHING ALMOST 50% IN JAN 2011



# Quality portfolio - performance

## 4 strategic brands

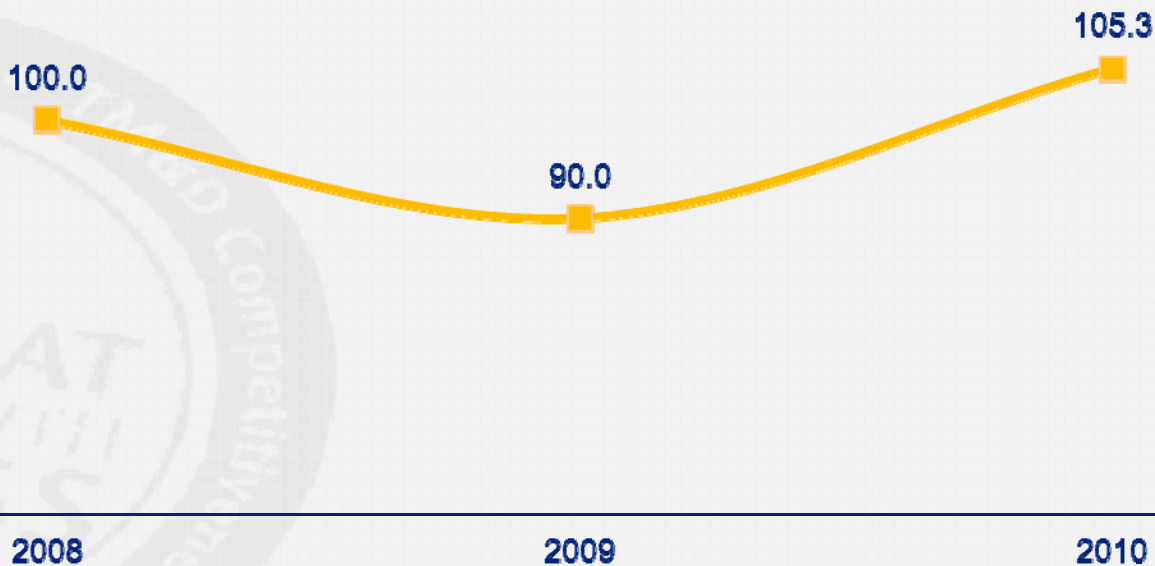


2008	2010	
38%	75%	Volume of BAT
0%	40%	Volume of BAT from recent launches and innovations
-1.1 pp	+0.8 pp	SOM growth vs SPLY

# BAT Mexico - profit turnaround

## OPERATING PROFIT – INDEX AS PER 2008

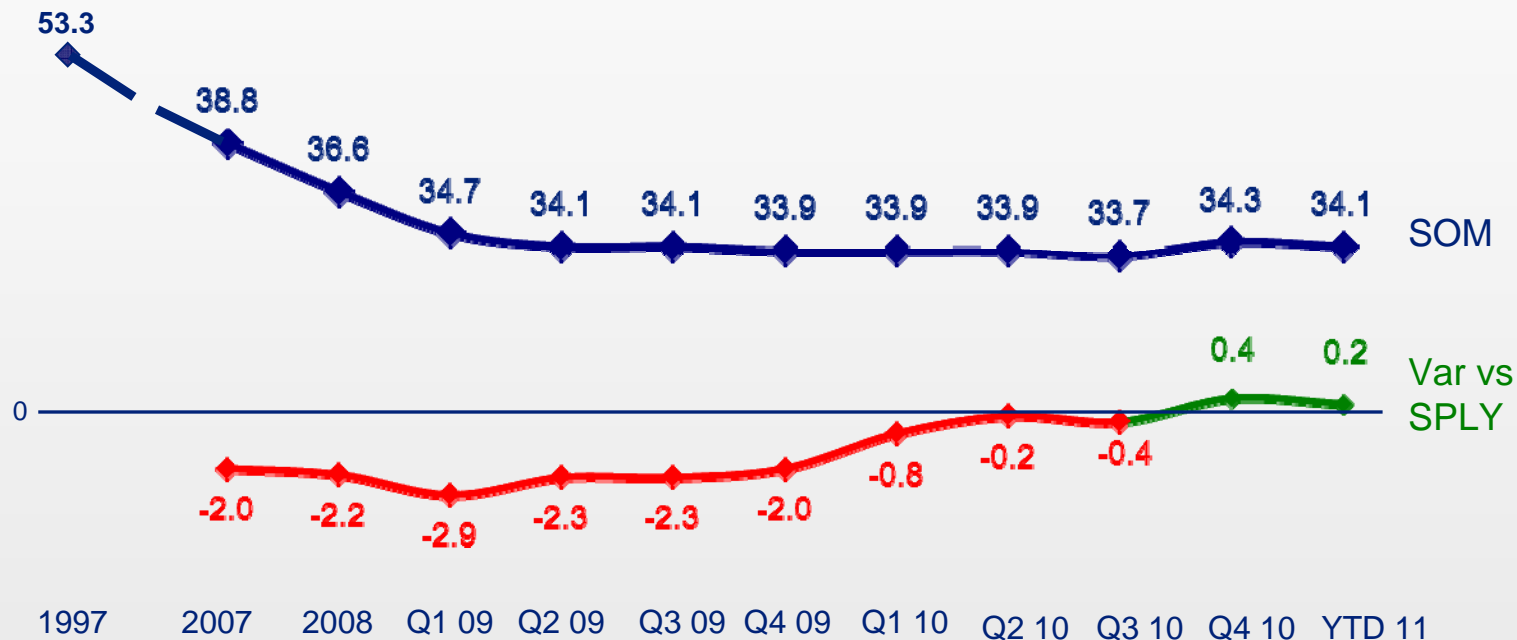
—■— Actuals Index





# BAT Mexico – market share performance

BAT SHOWS GROWING TREND SINCE Q4 2010





# Agenda



REGIONAL HIGHLIGHTS

MEXICO TURNAROUND

CANADA TURNAROUND

SUMMARY

# Canada: 9<sup>th</sup> largest economy in the world



- World's second largest oil reserves (behind only Saudi Arabia)
- One of the world's highest per-capita immigration rates

## AN OVERALL STRONG ECONOMY

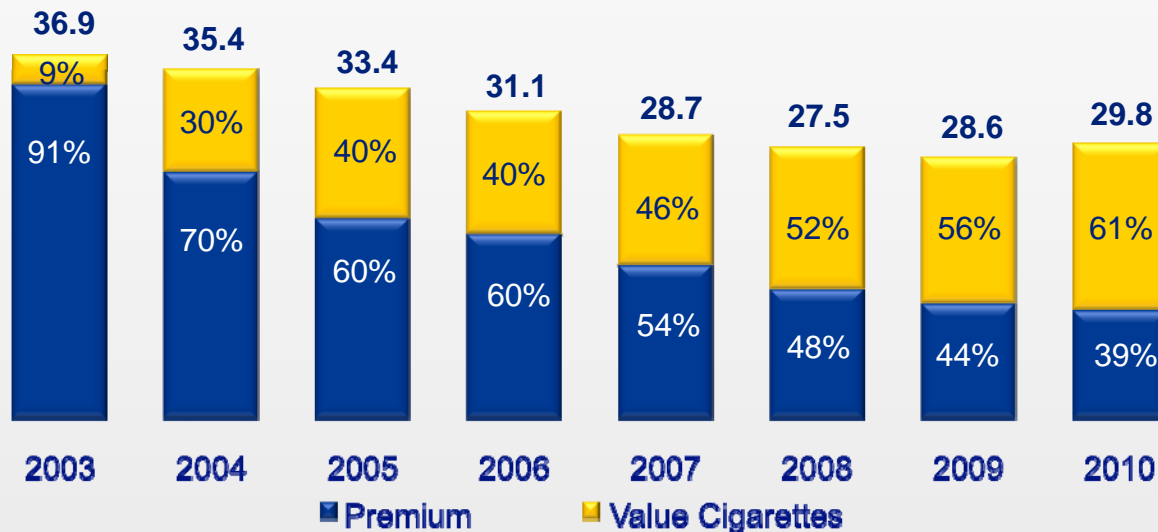
- GDP per capita is \$39,600 (12th world)
- Inflation 1.5%
- Unemployment 7.6%

## KEY DEMOGRAPHICS

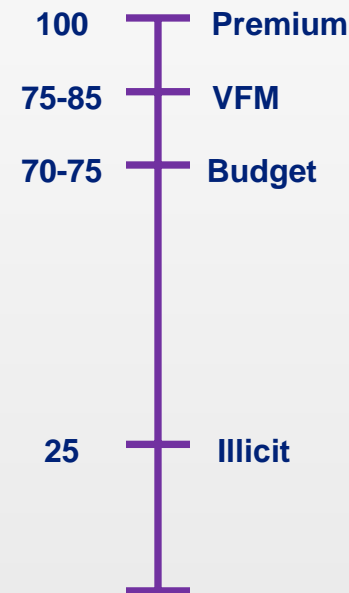
- Population 34.3 million (est 2011)
- 81% urban / 19% rural
- 27% ASU30
- 52% male

# A backdrop of illicit driven market decline & down trading

## TOTAL DOMESTIC CIGARETTE VOLUME BILLIONS

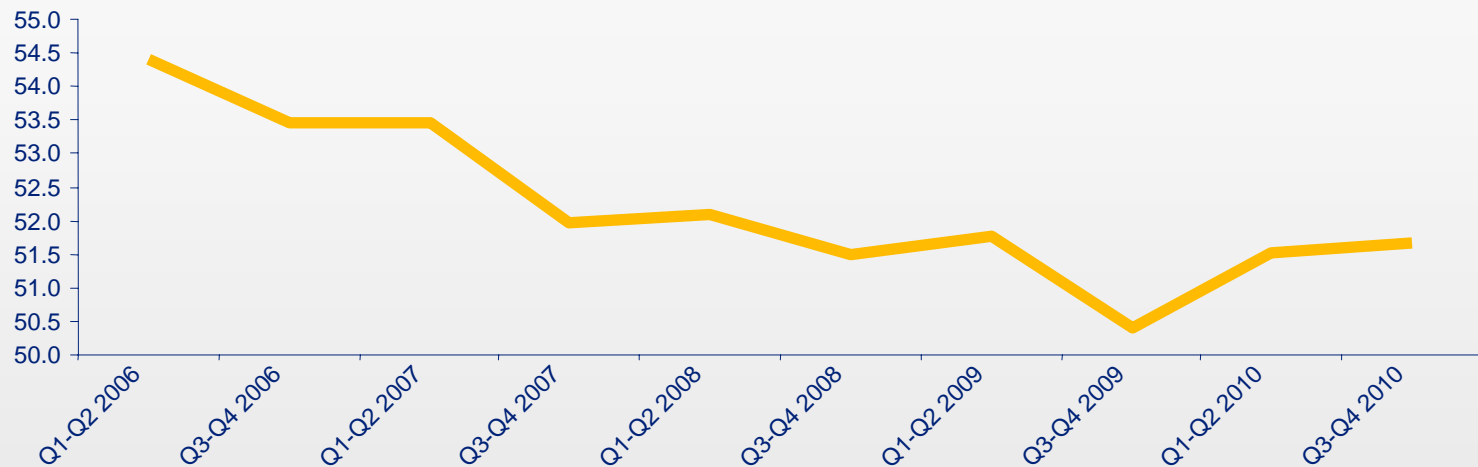


## Indicative retail price index



# Reversing the trend in 2010

## IMPERIAL TOBACCO CANADA SHARE OF MARKET



	2006	2007	2008	2009	2010
Annual market share	53.8%	52.5%	51.6%	51.0%	51.6%

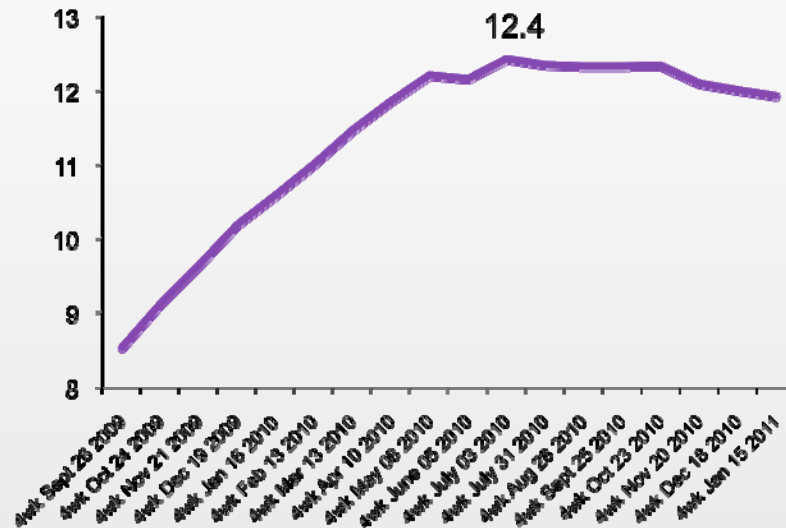
# ...by rectifying our portfolio weakness in VFM

## EXERCISING PRICING POWER ON JP STANDARD



## JOHN PLAYER STANDARD SHARE

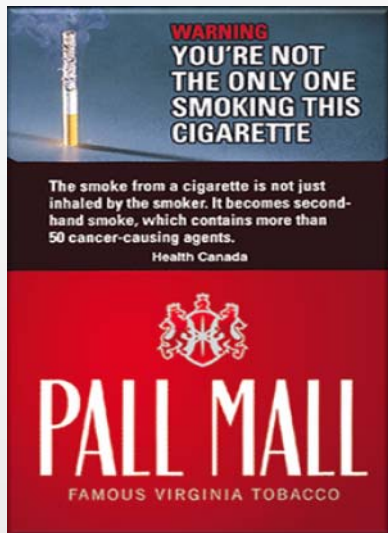
Share of total market



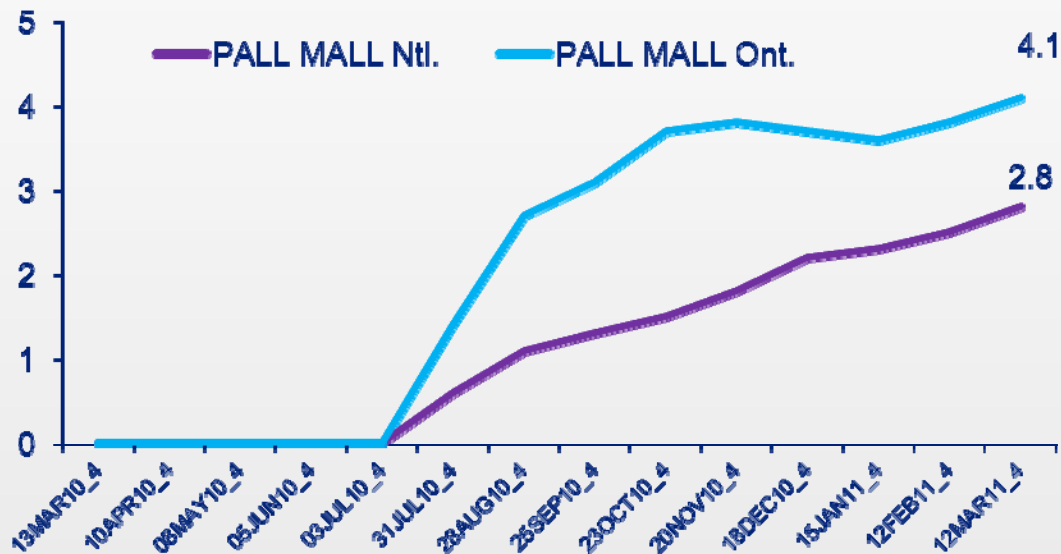
GROSS MARGIN HAS IMPROVED BY 60%

# ...by rectifying our portfolio weakness in VFM

## PALL MALL SUCCESSFULLY LAUNCHED – FASTEST GROWING BRAND



Share of total market



# And rejuvenating our premium portfolio...

## IMPROVED ASU 30 RELEVANCE FOR PLAYER'S



## PACK INNOVATION



## ..STABILISING SHARE

Q4 2010	Oct	Nov	Dec
SOM %	7.1	7.0	7.0



# And rejuvenating our premium portfolio...

## INNOVATIVE NEW PACKAGING FOR DU MAURIER...



## ..STABILISING SHARE

Q4 2010	Oct	Nov	Dec
SOM %	11.2	11.2	11.2

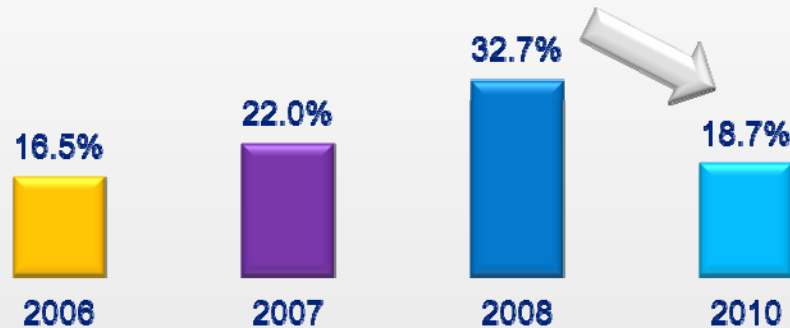
# 2010 - our position strengthened, 4 of the top 5 brands



RANKING	BRAND	4wk dec 18 2010
1	JOHN PLAYER Standard	12.1
2	du MAURIER RED	11.2
3	PETER JACKSON	9.4
4	CANADIAN CLASSICS	8.7
5	PLAYER'S BLUE	7.0
6	NEXT	5.8
7	MACDONALD SPECIAL	5.6
8	EXPORT A	4.8
9	VICEROY	4.5
10	NUMBER 7	4.2
OTHER KEY BRANDS		
	PALL MALL	2.2
	VOGUE	1.5

# Funded through illicit recapture: A case study for success

## ILLICIT AS A % OF TOTAL DEMAND NATIONAL



## FROM Q4 2009 TO Q4 2010:

- 5.5 billion sticks flowed back to the legal industry
- ITCAN captured 2.9 billion of the illicit flow back
- Decline driven by increased enforcement and public awareness as a result of a sustained 2-year public affairs campaign supported by our retailer partners and 3rd party alliances



# Executed through DSS - our competitive advantage



- We build superior availability through “Collaborative Replenishment”
- We have greater battlefield visibility through face-to-face weekly coverage
- We flawlessly execute targeted pricing programmes down to store level
- We orchestrate “hard launches” of new offers to maximise speed and scale
- We convert strong customer relationships into a profitable growth by leveraging our Expansion “Partners for Growth” programme
- ...and our cost base for DSS is now on a par with wholesale



# A word on regulation...

- 75% GHW's due end 2011 - subject to consultation
  - Our strategy caters for this, notwithstanding a potential challenge
  
- Increased illicit trade awareness leads to less tax increases
  - Tax increases in 2011 only in New Brunswick & Manitoba accounting for less than 10% of our business



# Agenda



REGIONAL HIGHLIGHTS

MEXICO TURNAROUND

CANADA TURNAROUND

SUMMARY

# BAT Americas - summary



CONTINUED OVERALL GROWTH MOMENTUM

CONTINUED SUCCESS IN OUR FOCUS AREAS

DRIVEN BY INNOVATION AND DIRECT DISTRIBUTION

DRIVEN BY STRONG COST MANAGEMENT AND LEVERAGING SCALE

DRIVEN BY FIRST CLASS PEOPLE

SUPPORTED BY ECONOMIC RECOVERY AND GROWING PROSPERITY