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Anti illicit trade : scale and opportunities

Neil Withington





AIT: scale of the problem

■ Size of illicit market

- Current estimates between 6% - 12% of consumption
- This represents between 300bn – 600bn cigarettes
- Lost government revenues between \$20bn - \$40bn

■ Trends

- Reduction in smuggled genuine
- Growth of ‘illicit whites’

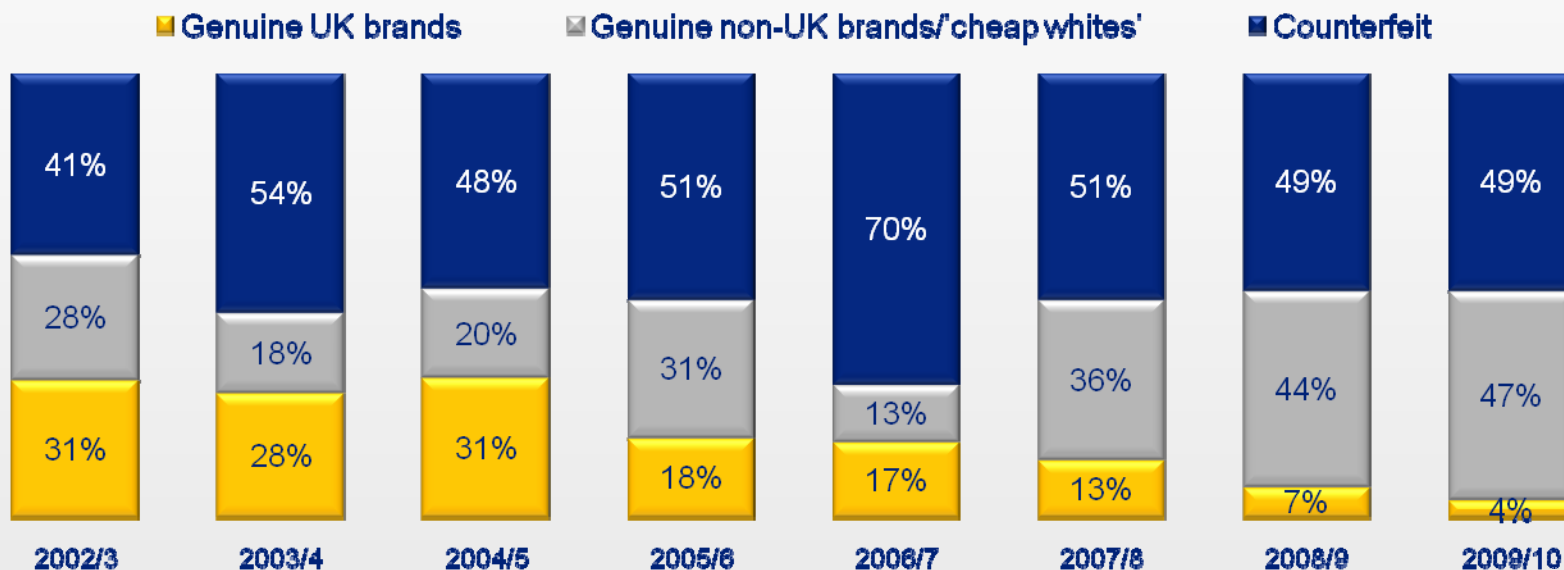
■ Emerging challenges

- Unintended consequences of Regulation
- Ongoing economic pressures
- Tax shocks

HMRC seizures – changing patterns

COMPOSITION OF LARGE CIGARETTE SEIZURES BY UK AUTHORITIES

% of large scale seizures



“Illicit / Cheap Whites”

- Low-cost cigarettes made and sold by 3rd or 4th tier producers who have no supply chain controls
- They are sold legally to a “first purchaser” in the country of manufacture
- Subsequent purchasers then smuggle the product across borders without payment of tax
- They generally do not comply with regulatory product or packaging standards in consumption market
- Generally sold at half the price of domestic duty paid cigarettes
- They do not infringe intellectual property rights
- They are generally legal at the point of production
- Many elements of the supply chain are completely legal – in complete contrast to a counterfeit operation



Top 10 “Illicit Whites” – truly global

	BRAND	MANUFACTURER	DESTINATION / CONSUMPTION MARKET
1	Jin Ling	(Baltic Tobacco, Kaliningrad)	Europe
2	Yes	(Mastermind, UAE)	Africa & Middle East
3	Luffman	(Lubritrade, Singapore)	Malaysia
4	Raquel	(Exposal, Cyprus)	Europe
5	Broadway	(Mont Paz, Uruguay)	Brazil
6	June Slims	(GTC, India)	Malaysia
7	Half Time 5	(Natuzi Trading, Singapore)	Malaysia
8	Portman	(Melfinco, Greece)	Libya
9	Rodeo	(Tabesa, Paraguay)	Brazil
10	Jet	(STTC, Indonesia)	Vietnam



AIT : How we're managing the problem



- Treat AIT as a competitor
- Raising awareness with, and educating, policy makers
 - Media / trade associations / tobacco industry / multi-sectoral bodies
- Varying our approach between local, regional and global, as appropriate
 - National governments / regional trade blocs / international bodies (e.g. IMF, WTO, WCO)
- Working with the wider industry
 - Developing technological solutions (Track & Trace, Digital Tax Verification)
 - Enforcement related intelligence gathering and analysis
 - Shared AIT market research in the EU and beyond
- Working with law enforcement across borders
- Supporting development of a strong WHO FCTC AIT Protocol

AIT : How we're managing the problem

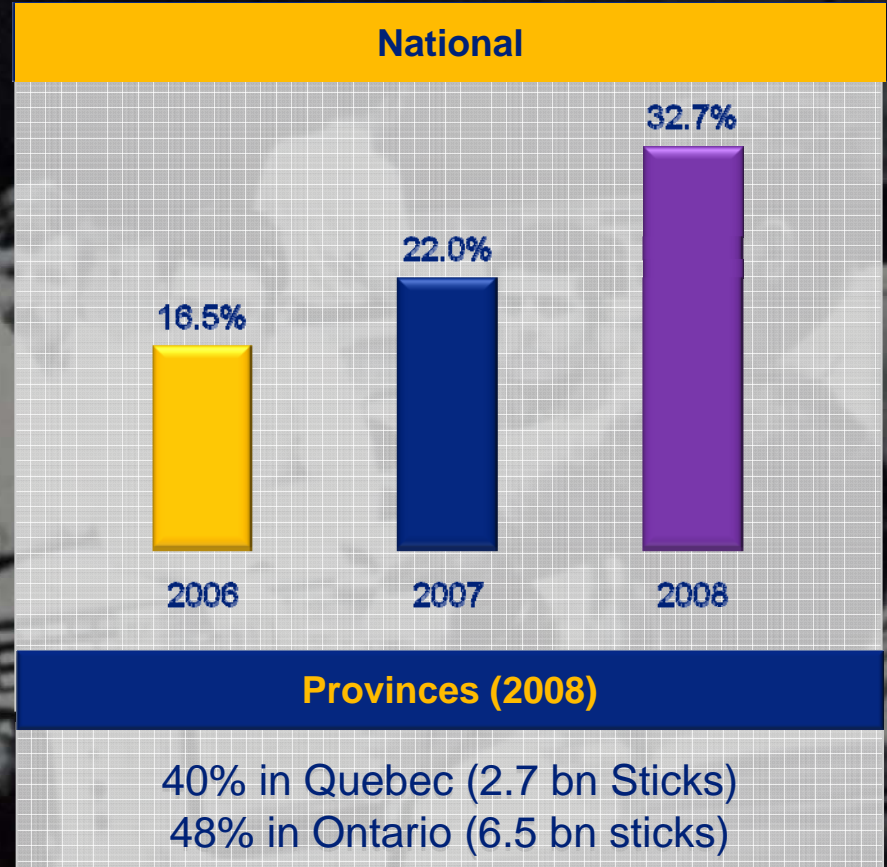


- Using a standardised framework for strategy development at all levels – local, regional and global
- Clear definition of roles & responsibilities and right people in right roles at all levels
- Gathering and sharing learnings and best practices from around the world
- Taking a cross functional approach to a business issue
- Building and using our global intelligence hub

Canada - one third of the tobacco market was illegal in 2008



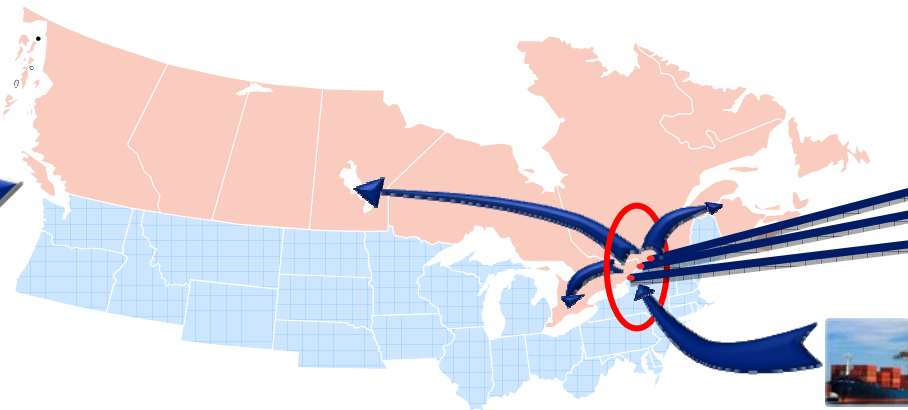
“CANADA WE HAVE A PROBLEM”



Canada - a smuggler's paradise



0.2%
Counterfeit
cigarettes
from China



Kahnawake
Akwesasne
Six Nations

93%
Duty not paid

6.8%

Smuggled
International
brands



Canada - AIT strategy

Raise Awareness & Apply Pressure

- Research & info. gathering
- Media
- Government Relations

Develop & Promote Practical Solutions

- Government leadership
- Enforcement
- Supply Chain Controls
- FN Tobacco Sales

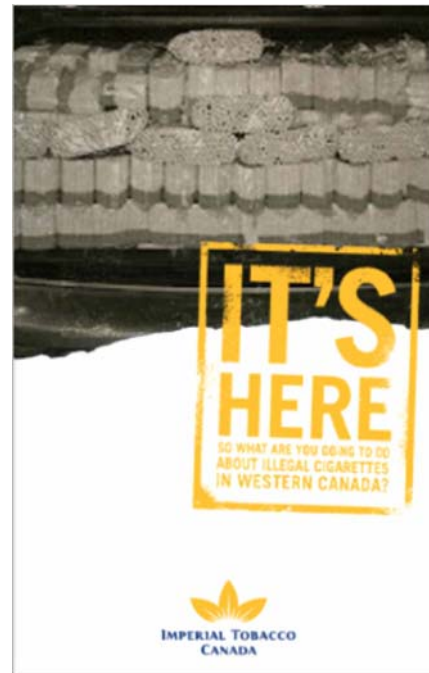
Capturing Returning Volume

- Intelligence gathering
- Compete for share

Protect our Brands and Reputation

- IP protection
- AIT Protocol compliance

Canada - framing the problem



Canada - providing intelligence to law enforcement



TRACKING SUPPLIERS TO ILLICIT PRODUCTION HAS LED TO MULTIPLE TOBACCO AND FILTER SEIZURES

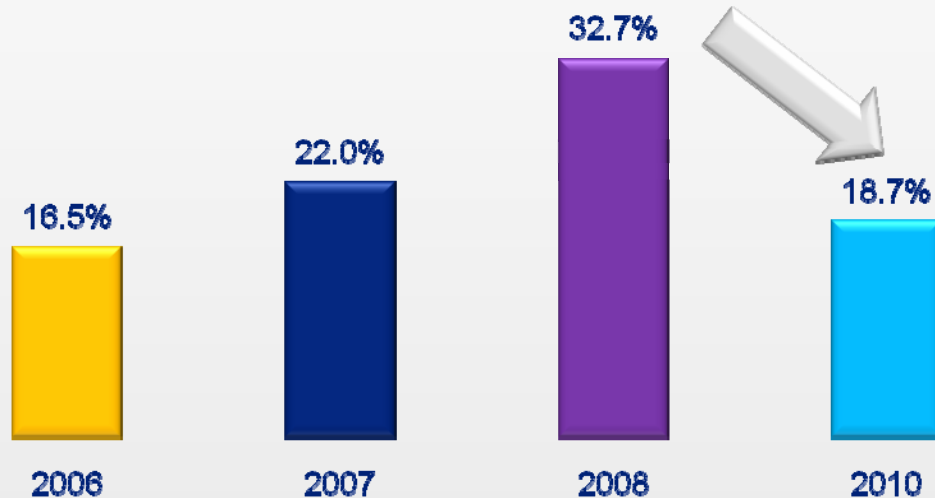


Canada – working with suppliers



Canada - 2010 a shift back to legal industry

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



AIT : examples of success - EUCA



- Background to the Agreement - \$200mn over 20 year term
- Key terms / obligations of the Agreement – Seizure payments, Track & Trace, Know Your Customer
- Potential benefits of the Agreement – Umbrella for cross industry cooperation, focal point for coordination of EU institutions to address AIT issues, forum for sharing of intelligence for enforcement
- Examples of early cooperation benefits – EU focus on pressurising Romania to tackle AIT, shared industry research, full engagement of DG Taxud to protect eastern EU borders



AIT : summary

- We're on top of the problem and managing it professionally
- At the national level there will be swings and roundabouts – *win some / lose some*
- At the global level we won't solve it but we can try and contain it. Keeping a lid on the problem is sometimes the best we can hope for – *"squeezing the balloon"*
- Whilst there may be some short term tactical gains, real success can only be delivered in the long term