BRITISH AMERICAN TOBACCO

Preliminary results 2012

28 February 2013

Ben Stevens, Finance Director

Financials

Q: Firstly, can you run through the key numbers and the financial performance over the year as you see it?

A: Yes, 2012 was an excellent year for British American Tobacco. At constant currency terms, net revenue increased by 4%. We had a very strong growth in our operating margin of 160 basis points. That meant our operating profit was up 8%. Capital productivity was good, so our earnings per share grew by 12% in constant currency terms last year.

On top of that, we had strong cash generation and we were able to increase the buyback by £0.25 billion to £1.5 billion for 2013.

Q: What has been the FX impact? What is it looking like for 2013?

A: I suppose after a couple of years of FX tailwinds, it is not surprising that should reverse. We faced an FX headwind this year of over 5%. It is very early to say what the impact will be in 2013. At the moment, it looks like a very slight tailwind, but the FX markets are very volatile at the moment.

Q: Now, you have made another substantial improvement in the operating margin. Is there more to come here? Will you be increasing your guidance?

A: The operating margin improvement was very good in 2012. We increased it by 160 basis points, 140 basis points on an organic constant currency basis. That is on the back of a very strong increase in 2011 as well. So the productivity improvement programme in BAT is really beginning to bite.

Having said that, having a good increase one year just sets the bar higher for the following year. I do not see any reason to increase our guidance of 50 – 100 basis points a year.

Q: How is your SAP integration programme going? Are you still on track?

A: Yes, the SAP programme is going very well. We went live in Malaysia in Q4 of 2012. The Malaysian company is now operating with the new SAP system. It has changed a lot of its business processes to align them with the global operating model.

Now we have moved on to Australasia now. Australasia is an interesting market because it contains a number of different countries. That will be good learning for the Group in putting in the SAP system.

After that, we go on to South Asia. Again, because it has a got a leaf growing business, it will be a very good learning for the Group in terms of putting in the SAP system.

After that, in 2014, the approach becomes more of an industrialised rollout and we move on to Europe and the rest of Asia.

This is a four to five year programme, but it is going well and we are currently on track.

Q: As you say, you are increasing the share buyback to £1.5 billion in 2013, but that is not going to overly stretch the balance sheet. Given the rates that you can borrow at, can you explain the Board's thinking?

A: We are running a fairly conservative balance sheet at the moment. I think there is no harm in doing that in the current economic climate.

Having said that, we have got strong cash generation which has allowed us to increase the buyback by £0.25 billion for 2013.

We also like to maintain the balance sheet flexibility because there are still potential acquisitions out there. I am not signalling any intent to do a particular deal, but we do want to retain the flexibility to move quickly and effectively if an appropriate deal comes up.

Q: Capex is up on last year. Is that within your expectations?

A: Yes, we highlighted earlier in the year that Capex was going to be higher during the course of this year. It will stay high for the next couple of years as we roll out of the SAP programme and, indeed, we invest money behind rolling out our very successful innovation programme that has built the Global Drive Brands over the last few years.

So, Capex will stay high for the next couple of years. Just over the current levels.

Q: Overall, how would you summarise 2012 and how do you feel about 2013?

A: I think 2012 has been an excellent performance for British American Tobacco on the back of a considerable number of years of good performances. We look forward to 2013 with some optimism.