



Preliminary results 2012

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Nicandro Durante, Chief Executive

Results

Q: *How would you describe the performance of the company over the last year?*

A: 2012 was a very good year for BAT. Revenue is up. Operating margin is up 160 basis point and we had a very strong pricing momentum in the industry.

We have met, or exceeded, all our financial targets for 2012, so I am very happy with the performance.

If you look at our reported earnings last year, we are 7% up and, currencies aside, would have been 12% up. It was, indeed, a great year.

Q: *Volume softened a little in 2012 after being flat in 2011. Why was that?*

A: Well, let me start by global volume. I think that in 2012, global volume outside China they were stable or, slightly up. If you look at duty paid volume, it was down in our account of around 1% - 1.5%. This is mainly due to consumers moving to Fine Cut and to illicit trades. I think that volumes are in a better shape than it was two to three years ago.

Regarding BAT, we had been impacted by three main factors. The first one is the market decline in Brazil due to a large, excise driven, price increase in May last year. In Brazil, we have a five year plan in terms of excise increase. That is coming down over the next three to four years.

The second one is the political instability in the Middle East and in Africa, which hit our volumes in places like Nigeria and Egypt.

Finally, we had some losses, low margin volumes in places like Turkey and Indonesia mainly driven by excise change.

Q: *Do you see this trend in industry volumes continuing?*

A: From my point of view, I think that for 2013 we should see the same kind of volume decline of 1% - 1.5%. If you look at our share momentum, it is very strong. I expect that we perform better than the market.

Q: *Is down-trading becoming a problem for you? Are you going to be able to raise prices in this kind of environment?*

A: I believe so. Our premium brands have held up share quite well. Last year, we had more than 6% price mix in our numbers, which was very solid. If you look at 2013, we already have 80% of our price mix that we are expecting. Therefore, I think that is a very solid environment.

We see some down-trading in some of the markets, mainly in western and southern Europe. However, the majority of the markets in the developing world, where we have 75% of our volume, we see up-trading. Therefore, I am very confident for 2013.

Markets

Q: *The 3% growth in Global Drive Brands is lower than last year. Is this going to be the level of growth we should expect now going forward?*

A: It is very difficult to predict the growth of the Global Drive Brands because you have to take two factors into account.

The first one is the industry decline or growth in the countries in which they are being sold.

The second is the performance of the brands. In terms of the performance of the Global Drive Brands, I think that we had an outstanding 2012. We grew, excluding the one-off in Japan, 4% in an industry that was declining around 1% - 1.5%. This has been driven by the global drive brands and powered by innovations pipeline.

We have been growing market share in those brands as well. Last year, we grew 30 basis points against 2011. It is difficult to predict 2013, but we will be growing the GDBs faster than the overall markets. No doubt about that.

Q: *How are you performing in terms of market share?*

A: Our market share in 2012 grew against 2011, excluding the comparator from Japan. More importantly, it is the momentum that we now have. If you look at the second half of 2012 we had a better share performance than the first half of 2012, and the fourth quarter was the strongest of last year, so we come with very good growth momentum to 2013 and the reality is that we are growing market share in the majority of our markets, so that's very good momentum for BAT.

Q: *There appears to be little in the way of improvement in terms of the macro-economic environment, especially in Western Europe. Is that a concern for you?*

A: In Western Europe, we see the markets declining, some of the markets, such as Spain and Italy, declining with big numbers. The reality is that when you look from a consumption point of view, the decline is much lower than that. People are trading down to Fine Cut and are trading down to illicit trades. Therefore, Fine Cut is becoming a quite important category for Western Europe. BAT is doing very well in that. We are growing 8% in terms of volume and growing one share point. Pall Mall is the largest brand in this category.

I think that going into 2013, considering the economic environment that we are in, that unemployment rates are not coming down and that disposable income is not going up, I see more of the same.

Q: *How is trading in the rest of the world?*

A: We had a very good year in the other three regions. If you look at EEMEA, for example, there was very good revenue growth, very good profit growth, and growth in market share in the

majority of the markets; the performance in places like Russia, the GCC, Ukraine, and South Africa, was really outstanding.

If you look at the Americas, across the region from a low start of 2011, they had a fantastic year. Good growth momentum for 2013 in places in like Brazil, Mexico, Canada, Chile, and Argentina. We had good growth in terms of profitability, and also revenue.

If you look at Asia-Pacific, we also had some very good growth performances we grew in eight of our top 10 markets, with growth of share, revenue and profits. Two of them we had some issues. One of those was in South Korea, in which we still have some price differential against the competition. However, if you look at the last six months of 2012, their share has been stable and is likely growing.

In the case of Indonesia, we had some delisting of our low price, low margin brands because of the change in the excise structure. Nowadays, we have a much stronger portfolio in Indonesia. More than 50% of our portfolio in Indonesia is in the strategic brands. One of those, after eight months from launch, is the most successful launch in the international brands category. This is Dunhill Mild. This is performing very well. It has more than 1% market share in Indonesia and almost 4% share in Hungary, in the top 15 cities.

Innovations

Q: *With plain packaging now implemented in Australia, and the release of the EU TPD draft in December, regulatory pressures on the industry appear to be hotting up. Will innovation still form a cornerstone of your strategy as regulation becomes stricter?*

A: As I have said several times, innovations are at the core of our marketing strategy, have been at the core of our market strategy and will be at the core of it in the future. I do not see anything changing. The reality is when the regulatory environment changes, innovations will adapt and evolve. We have just seen the recent one being implemented so successfully in Europe in the last year, All Natural, behind Lucky Strike and Pall Mall, are performing quite well. So I do not see anything changing in this arena.

Q: *Now, it appears that e-cigarettes are becoming increasingly popular, and you have recently bought an e-cigarette company. Can you just explain a little more about the thinking here?*

A: There is a growing interest in the cigarettes in the markets nowadays. As part of our harm reduction strategy, we are looking to this category as well. As you can see, two years ago we set up Nicoventures and recently, we acquired CN Creative. That is a novel nicotine device company.

We are looking to launch something on the market in the coming years. This is so important for us. We have just created a position at the Board level in BAT, the General Manager for Next Generation Products, to look at these categories.

I do not believe that it is going to be a huge income stream for the company in the short term, but I believe that for the mid/long term this can be a very good opportunity for BAT.

Excise environment

Q: *You have previously characterised the excise environment as becoming a little more rational. Is that still your thinking?*

A: Yes, I think that excise nowadays is more predictable. I mentioned that the situation got better around 2011/2012. It was a little bit worse between 2008 and 2010. I think that is exactly what is happening now.

If you look at 2012, we had some structural changes in excise in places like Indonesia, Brazil and the Philippines. In the case of the Philippines, the new excise structure allows us to compete in the markets, so it was a good change.

When you look at 2013, the two big ones that I am seeing is still the second tier of the excise increase in Brazil. That is higher than inflation. The excise increase and Russia is also higher than inflation. However, in the majority of the markets, what we see is excise moving according to inflation which is manageable.

Outlook

Q: *Given the current macro-economic environment, how confident are you that you are going to be able to deliver on your promise of high single digit earnings growth?*

A: The first time we established these objectives was in 1998. Since then, BAT has delivered on that objective.

If you look at our strengths, in terms of our portfolio, executional capability, the pricing momentum that we have within the industry, and the quality of our people, I have total confidence that we will keep delivering on these objectives.