



## **BAT Preliminary Results 2013**

**Nicandro Durante, CEO**

### **2013 Preliminary Results**

**Q: Are you satisfied with these results and have they matched your expectations for the year?**

A: Yes I am pleased with the numbers that we have delivered in 2013. It has been a challenging year for the industry but BAT has done in my opinion a very good job. If you look at our numbers despite the currency headwinds that we had 4%, we have delivered a very good share growth, the share in the premium segment for example which is very important for our strategy has grown 80 basis points. And if we look at net turnover 4% up, price/mix was 7% up very solid. If we look at EPS growth 10% up, profit 7% up so it was indeed a very good set of numbers.

**Q: There's been a lot of talk of emerging markets slowdown, are you seeing any evidence of this?**

A: Well what we have seen so far in 2013 we had some slowdown in some of the economies in emerging markets, we had some, as I said, currency devaluations in emerging markets as well. But I don't think that a lot has changed for us. If you look at the volumes in 2013 they were down 3% to 3.5% and the volume that -- in developing markets for BAT were stable, as you can see it's quite a strong performance.

From the profit point of view if you look at our growth in constant currency terms it was 50% of our profit growth in 2013 as well, so very good performance. I don't think that anything is broken there. I think that emerging markets are fundamental today and they will be fundamental for the future growth of the industry. So I am very happy that we are very strong in those markets.

**Q: How do you judge the performance of the regions?**

A: The regions have done well. If you look at in constant currency terms we had growth in the four regions. We have grown revenue and profit growth all over the place so I'm very happy in the way that they performed. If you look at the region by region Asia Pacific it was a very good year for them. We had share growth across the board. We had revenue growth, a very strong profit growth driven by places like Australasia, driven by places like Malaysia and so a very good performance.

You go to Americas, very strong market share growth 110 basis points across the board, which is very important for us there. We had very good revenue, very good profit growth as well. The same happened in EEMEA it was quite an important year in EEMEA in which we grew market share strongly in places like the Middle East and the places like Russia with very good contribution of places like South Africa in terms of profitability. In Western Europe we had revenue and profit growth and we outperformed the industry if you take into account our profit performance. So I'm very happy indeed with the regions.

**Q: Growth in the Global Drive Brands was 2% which is down on the 3% from last year are you happy with the performance here?**

A: Well we have to take this into context. First of all overall market declined last year as I said before between 3% and 3.5%, and the GDBs were up around 2% so in reality the underlying growth is between 5% to 5.5% which I have to say is quite strong in the current environment. Share-wise GDBs are growing 60 basis points all the brands had a good performance. Two out of four brands have volume decline because of the industry decline in the markets that they were strong, but in share terms they performed quite well.

The only brand that has had a very good year indeed is Rothmans. We launched the brand in several markets in 2013 and the starts were performance of Rothmans in places like Russia, Ukraine and Italy. And that's why the investments behind the brand and because it's having a global scale, we are adding the brand to our list of Global Drive Brands for 2014.

**Q: You had some big excise increases in Brazil, Russia and Australia is the excise environment becoming tougher again?**

A: I don't think so. If you look at the past mainly during the years of 2008 and 2010/11 usually had seven, eight, nine excise shocks per year now we are coming back to the old times when you had two, three or four so I don't think that's getting worse I think that's getting more predictable to be honest.

What's happened in 2013 that was a peculiar year in terms of excise was that we have excise shocks in two countries that are huge volume contributors to the business Russia and Brazil. But this was expected I have to say. We have five years plan of excise increases in places like Russia and Brazil that were established two to three years ago, so we knew that this was going to happen. And in places like Brazil for example going forward I think that the excise is going to grow more or less according to the inflation, so it's going to get better.

**Q: Industry volumes have been declining at a faster rate recently when do you think we'll see normal rates of decline resume?**

A: It is very hard to answer this question because I think that's pretty much dependant on the performance of the economies around the world. The main reason for the volume decline in 2013 was excise shocks that we saw in Russia and Brazil and was as well the economic conditions in places like Western Europe and mainly Southern Europe. I think that it will take some years to go back to the old rates of decline but it's pretty dependant on the economic conditions as I said.

**Q: The tobacco industry has always been able to more than compensate for declines in volume by increasing pricing, is this model still working?**

A: I think so. If you look at 2013 we had a very strong price/mix of 7% and if you look at our long-term perspective you look like five, six years the price mix has been around 5% to 8%, so as you can see nothing has changed. The price environment is still very solid. We have taken so far 60% of the pricing that we are expecting to have during 2014, so it's coming according to our planning. So I expect for 2014 that price will be in that range, so I think that things are going according to expectations.

**Q: The EU Tobacco Products Directive is nearing completion and several countries are considering plain packaging what impact is this going to have on your business?**

A: Well let me start with the EU TPD, the EU TPD is a collection of regulatory measures that we have seen in other parts of the world already. They are going to go through approval for the Commission next month and they should be implemented in the Member States during the next two years, so the company is used to deal with those kinds of regulation.

And I think that here is very important to say that BAT is not against regulation. We support size-based regulation. The problem that we have is that some of those I don't think that they are going to make the public health goals that the governments try to achieve.

An example of that is plain packaging. That was introduced in Australia 14 months ago at the end of 2012, and after 14 months we haven't seen any change in the dynamics of the markets, volumes are declining less than the rate of decline that was before to be honest. But you look at average daily consumption for example, consumption rates in general and the rate of decline is similar to the ones that you saw in previous years, so it's happened exactly what we said. I don't know about the future but so far we haven't seen an impact of plain packaging in Australia in our numbers.

**Q: Illicit trade has been increasing recently do you see this trend continuing?**

A: As I said several times before I think that illicit trading needed to be seen in a country by country basis. It's very difficult to look at illicit trading on a global base on average. So every year we see a lot of countries in which illicit trade goes down and some countries illicit trade goes up. So this year for example due to the outstanding work done by the governments places like South Africa, like Mexico illicit trade went down. But you have other places in the world where illicit trade went up. So it's a daily battle.

We work with the governments in order to help them to face the challenge, because this is not good for the industry but it's not good for the governments in terms of tax evasion, it's not good for the consumers because of the quality of the products. So this is something that we work very closely with the governments as I said.

**Q: e-cigarettes really captured the market's attention in 2013 is growth here still accelerating?**

A: Well last year when we were having these chat, I said that e-cigarettes were around 0.5% to 1% of the industry in Europe. Well the number has not

changed that much, has grown in some of the markets but in general it is still very, very small. I believe that it will take many years to have an impact in the combustible business. The issue that they face in e-cigarette is that we have a lot of awareness for the product but I don't think that the products that we have in place nowadays satisfy consumer needs. And until we have superior products as compared to the ones in the market I don't think that the situation is changing.

From the BAT perspective as you know we launched Vype at the end of last year. We are very happy with the launch. So far it's working quite well. We nowadays after four or five months are present in more than 10,000 stores in the UK. So we are happy with our performance in this category. But as I said I don't think that's going to affect the combustible business in the short-term but it's a category that may grow in the future, we wanted to play there and lead it, so if it grows we will grow the category.

**Q: What's your outlook for the year ahead?**

A: It's going to be another challenging year in 2014. I don't think that economic conditions, the economic environment is going to improve dramatically in 2014. We still see disposal income not going up; unemployment rate in many countries in the world is still high mainly in Europe. But despite all this I am very optimistic that BAT is going to again outperform the markets. I believe that we are going to deliver the high single digit earnings growth in constant terms that is our long-term strategic metric. So, yes, I am optimistic about 2014.