British American Tobacco Preliminary Results 2013
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CORPORATE PARTICIPANTS

Nicandro Durante

Chief Executive

Ben Stevens

Finance Director & Chief Information Officer

CONFERENCE CALL PARTICIPANTS

Erik Bloomquist *Berenberg - Analyst*

Richard Hughes *M&G - Analyst*

James Bushnell *Exane BNP Paribas - Analyst*

Owen Bennett *Nomura - Analyst*

Damian McNeela *Panmure Gordon & Co. Limited - Analyst*

Jon Leinster *UBS - Analyst*

Adam Spielman *Citi - Analyst*

Henry Davies *BofA Merrill Lynch - Analyst*

Chas Manso *Societe Generale - Analyst*

PRESENTATION

Nicandro Durante - *British American Tobacco plc – Chief Executive*

Good morning everyone and welcome to those of you who are listening on the conference call or watching via the webcam. I am Nicandro Durante, Chief Executive of British American Tobacco and as usual, I am joined by Finance Director, Ben Stevens.

After the presentation, there will be an opportunity for those of you in the audience to ask questions. As you will see in a moment, we have changed and hopefully improved the format of the results presentation this year. I hope you find it a clearer, more useful presentation of the numbers.

Once again, I am extremely pleased to say that despite a challenging year for the industry, British American Tobacco has performed very strongly in 2013. On a constant currency basis we met or exceeded all of our financial strategic metrics.

Pressure on disposable incomes in Western Europe together with large excise-driven price increases in Brazil and Russia resulted in lower industry volume. However, continued corporate share growth and the strength of the GDBs ensured that BAT out-performed the industry.

Our cigarette volume was down 2.7% in our industry, we estimate it will be down between 3% and 3.5%. Industry pricing remains strong and revenue grew over 4% on a constant basis driven by very good price mix of almost 7%.

The impact of adverse exchange rates meant that the reported revenue was slightly up. Operating margin grew 100 basis points to a record 38%. Adjusted operating profit on a current basis was up 3% or 7% in constant terms.

And I am very pleased that we have again delivered on our commitment to high single figure earnings growth with a 10% increase in EPS at constant rates of exchange, or 6% at current rates of exchange.

These are the strong results at the top end of a strategic metrics, only tempered by the strength of Sterling, our reporting currency which has little impact on the underlying strength of our business.

Having said that, even at current rates, BAT has grown and prospered over the last five years and at constant rates we have delivered a consistently strong performance, generating average annual earnings per share growth of over 10%. Our results in 2013 are not a one-off and this good performance comes despite a very tough economic environment.

The proposed dividend per share is 6% higher at 142.4 pence for the year. We have always said that we see that 65% pay-out ratio as a floor not a ceiling. This year a strict application of the ratio would have resulted in a 4% increase in dividends due to the IAS 19 re-statement of 2012 EPS.

However, we are increasing the dividend in line with our growth in earnings, resulting in a small increase in pay-out ratio. I am also pleased to announce that we will continue the share buy-back with another £1.5 billion in 2014.

I will now hand over to Ben who will take you through the numbers in a little bit more detail.

Ben Stevens - *British American Tobacco plc - Finance Director & Chief Information Officer*

Thank you, Nicandro, and good morning everyone.

Looking at the Group's performance by region, Group cigarette volume was down 2.7%.

As Nicandro mentioned in his opening comments, this was mainly due to industry declines in Western Europe, excise driven price increases in Brazil and Russia but partly offset by strong growth in Asia Pacific.

Excluding Russia and Brazil, volume would have been down 1.4%, with our strength in Asia making up for the tough economic conditions in Europe.

All four regions contributed to our 4% increase in revenue at constant rates. The strong price mix of nearly 7% was achieved through good pricing in all regions, partially offset by our negative geographic mix in AsPac.

Very good profit growth of 7% at constant rates was driven by all four regions. Adverse exchange rates affected three out of the four regions resulting in a reported revenue being slightly higher and profit up 3%.

Before we look at the regions individually, I would like to briefly cover the impact of foreign exchange on the results. At the first quarter we thought we had a 3% tailwind.

By the interims this has changed to a 2% headwind. Since then, the currency headwind has increased considerably with the full year impact actually being 4%. This was driven by sharp devaluations towards the latter part of the year of the Brazilian Real, Australian Dollar and South African Rand, three of our top five markets, as well as the Japanese Yen and the Indian Rupee.

This masks an otherwise very good EPS performance with the underlying business growing strongly at 10%. Predicting foreign exchange rates is a hazardous business but I normally give some guidance on the impact of 2014 results if FX rates stayed exactly where they are today. Having had a number of years of significant tailwind, the strength of Sterling is now giving us an FX headwind and at today's rates, that would be 11%.

Now, turning to the regions. At constant rate all four regions grew both profit and revenue. Asia Pacific delivered another impressive set of results, growing revenue and profit by 6% and 7% respectively at constant rates of exchange.

This was driven by strong performances from the majority of the markets. The significant devaluation of the Australian Dollar and the Japanese Yen meant that reported revenue was slightly down and profit was up 2%.

We continued to build on our leading positions in Pakistan and Bangladesh and further strengthened our position in Vietnam, achieving excellent growth in share, volume and profit. Australia delivered very good growth in profits, driven by pricing, cost savings and growing share in the premium segment.

We have seen no impact of plain packaging on the business to date, although illicit trade has grown. Overall share was lower due to competitor pricing activities and the growth in the ultra-low pricings.

Shares in Japan was essentially flat despite strong marketing activity from competitors and profit was impacted by industry volume contraction. In Malaysia we remain market leaders and continue to grow share and profits. Volume however declined following a significant excise increase in October.

In Indonesia volume was up 8% against an industry of 2% driven by the continued good performance of Dunhill. Although mixed improved, profit was impacted by higher marketing investment and clove prices. Volume in the region grew by 4.9%, largely driven by Pakistan, Bangladesh, Vietnam and Indonesia, partly offset by the declines in Malaysia, Japan and Australia.

Double digit growth in GDB volume was mainly driven by Dunhill and Pall Mall. The American region grew revenue and profit by more than 3% and 4% respectfully at constant rates of exchange. This was driven by strong performances in Brazil, Canada and Mexico.

The significant devaluation of the Brazilian Real and the Venezuelan Bolivar meant that we reported revenue and profit in the region were down 4% and 2% respectively. In Brazil strong pricing ensured good growth in revenue and profit at constant rates despite the industry volume decline. In Canada, profit grew as a result of stronger performance in the premium segment, price increases and cost savings while market share was lower.

Mexico delivered a fantastic performance. Profit grew strongly as a result of improved pricing and higher volume driven by strong share gains in particular from Pall Mall.

However, volume in the region was down 6.2%. This was largely due to the large excise driven price increases in Brazil where although market share grew strongly, volume was down 10% against an industry-down 12%. The GDBs delivered another excellent performance up 12.3% driven by Pall Mall in Chile, Argentina and Mexico.

In Western Europe we achieved excellent revenue and profit growth of more than 1% and 4% respectively at constant rates, despite the impact of market declines. At current rate, this was 6% and 8%. This was largely due to good performances in Germany, Romania and the UK as a result of strong pricing and good cost management.

In Romania we also continued to grow share strongly, achieving record shares in both Dunhill and Pall Mall which is now the number 2 brand in the market behind Kent. Profit in Denmark was up significantly benefiting from higher sales in December ahead of the excise increase in January 2014.

Share across the region was slightly lower, mainly due to three markets, Poland, Spain and Italy. In Poland, Lucky Strike grew share but this was offset by declines in the lower price plans. In Spain we have seen a better performance in the second half of the year with Lucky Strike share broadly stable.

I am pleased to say that in Italy we have now had three quarters of stable share for the first time since 2011, with Rothmans in particular growing well. Cigarette volume in the region declined 7.8%, essentially in line with the overall industry. High unemployment and continued economic uncertainty drove consumer down-trading into illicit trade and fine cut.

Good growth in Belgium, Italy and Germany saw our fine cut volume grow 1.3%. Total tobacco volume was down 6.5%. Global Drive Brand volume was down 6.2%. Share grew with a continued good performance from Lucky Strike.

EEMEA delivered another outstanding financial performance. Revenue increased 6% in constant terms and 1% in current terms. Profit grew strongly up, 12% in constant terms and 6% at current rates. In the Middle East, increased volume and improved mix, driven by Dunhill's continued success in the GCC and good pricing, resulted in strong profit growth.

South Africa grew profit and saw continued share growth in Peter Stuyvesant, the number 1 brand, as well as Dunhill. Overall share was down slightly as a result of competitor pricing activities. In Russia, industry volume was down 7.5% due to the excise driven price increase and the first signs of growth in illicit trade.

BAT volume was down 6.4%. The excellent performance in Rothmans in the value for money segment drove overall share growth, Kent held share and maintained its leadership in the premium segment. Profit was up as a result of higher pricing and improved mix.

Volume in Ukraine was also lower as a result of market contraction. However good performances by Kent and Rothmans resulted in share growth, an improved mix and good profit growth. Turkey volume was impacted by excise driven price increases and competitor activities.

Volume in the region was down 3.7% largely as a result of the decline in Russia, Ukraine and Turkey, partially offset by the strong growth in the Middle East. GDB volume in the region was down 4.6% mainly to the declines in Russia.

Turning now to the operating margin. As you know, our medium term target is to grow operating margin by 50 to 100 basis points on average each year. After a strong performance in 2012 we have once again delivered at the top-end of our range with growth of 100 basis points with all regions contributing to this year's growth.

Particularly outstanding was the EEMEA region driven by good pricing in South Africa and the GCC which also saw improved portfolio mix and tight cost management across the region. Good pricing is clearly a key driver but we are also driving costs out of the business with accelerated costs management.

We are busy rolling out our single instance of SAP. In 2013 we went live in Australasia and South Asia and expect the Asia Pacific region to be largely complete this year with inroads being made into Europe and EEMEA. We have reviewed our head office and regional cost base and are currently making changes to reduce costs but also to increase efficiency and effectiveness.

EPS at current rates grew 6% to 216.6p. Excluding the impact of exchange, EPS was 10% higher at 224.7p. This performance was driven by strong profit growth, good contribution from our associates, notably those from the ITC as well as the continued beneficial impact of our share buyback programme.

Now, onto cash flow. Depreciation is the main component of non-cash items and this is broadly in line with last year. The increase in working capital is largely due to stock builds linked to the timing of excise driven price increases.

Net capital expenditure benefited from asset sales principally in Australia and Russia. Gross capital expenditure is £720 million and as I have indicated previously, I would expect capex to be in the range of £750 to £800 million over the next two to three years as a result of the SAP deployment and continued investment in Innovations and Next Generation Products.

Pension fund outflows related to the shortfall funding to the UK schemes and are slightly above last year. Finance costs was slightly impacted by the higher net debt as a result of the share buy-back programme. However, there has been a reduction in tax outflows mainly due to exchange rate movement in some key markets, as well as the timing of tax outflows in others.

Restructuring outflows increased as a result of the continued cost of rolling out the new operating model and SAP implementation. Dividends from associates include the proceeds from the Reynolds share buy-back programme.

This delivered free cash flow of £3,371 million which is 3% higher than 2012. Our free cash flow to adjusted earnings which we like to keep in the region of 80% and which demonstrates the strong cash generation of the business, was 82% in 2013.

During 2013 we returned a total of £4.1 billion to our shareholders via a combination of dividends and share buy-back. Our net debt increased by £1 billion and our credit rating was upgraded by Moodys to A3 and held at single A-minus by Fitch and S&P.

In 2013 we have proposed a slightly higher pay-out ratio to take account of the IAS 19 adjustments to results which reduced 2012 EPS by 1.1% or 2.3p. Our EPS growth in 2013 is 6% and our dividend will increase by 6% in line with this, giving a pay-out ratio of 65.7%.

That is all for now and I will hand you back to Nicandro.

Nicandro Durante - *British American Tobacco plc – Chief Executive*

Thank you, Ben. Ben has taken you through the numbers. I will now like to take you through a few of my highlights of our performance last year.

I am very pleased that each of the regions performed well in 2013 with strong performance in the vast majority of our key markets. Just to highlight a few; in both Brazil and Russia despite the significant excise increases we delivered strong growth in market share.

In Brazil we reached a share of 77% helped by the continued success of Dunhill which achieved a record share of around 10%.

In Russia the success of Rothmans has continued and the brand reached a national exit share of 2.5% after only 18 months helping to drive strong growth in overall corporate share.

Both Bangladesh and Pakistan continued to deliver outstanding performances driven by JPGL and Pall Mall. Shares in Bangladesh was up 3.7 percentage points and 1.6 in Pakistan.

Good share growth was also achieved in many other markets, including Romania, Mexico, Vietnam, Malaysia and New Zealand. Australia saw the introduction of plain packaging, however despite this, the market delivered another excellent profit growth.

As anticipated, plain package continued to have no noticeable impact on consumer consumption trends. Whilst duty paid volume remained broadly stable, illicit trade has increased.

Our excellent performance in Indonesia has continued, with volume up 8% driven by Dunhill Mild Kretek which is now a top 10 brand in Indonesia. It is also the key driver for significant share growth in the premium segment.

In Western Europe I am very pleased that despite the economic downturn, we are able to deliver excellent revenue and profit growth with strong performances in several markets such as Denmark, Germany, the UK, Romania and Switzerland.

Mexico is a market where we have been losing share for a number of years. However, the continued success of Pall Mall has driven shares up by 1.5 percentage points over 2013.

Finally, in Columbia, having successfully completed the integration of the business over the course of 2012, our re-development of the Mustang brand is delivering good results reflected in its share growth in 2013.

In addition to our strong performance in many existing markets across the world, I would also like to highlight the investment we have made in a number of new future growth opportunities.

A levelling of the competitive playing field in 2013 in Morocco and the Philippines has opened up new opportunities in those important markets. In Morocco a 15 billion stick market, the launch of Rothmans has showed good initial results, although it has only been a few months.

Our recent entry into the Philippines has given us access to the seventh biggest market in the world. Whilst it's early days, I am very pleased with the success of Lucky Strike. We have already achieved an overall share of 0.5% in Lucky Strike share in handling in Manila is a very encouraging 5%.

We also re-entered Myanmar during 2013 with a successful re-launch of London. We are the only international tobacco company selling the markets and we have already achieved over 70% national numerical distribution and a market share estimated at 7%.

Earlier this year, we were also pleased to announce the establishment of CTBAT our joint venture organisation with China National Tobacco Association. Although it is early days and unlikely to impact group numbers for many years to come, I am happy with the progress to date and the continuing relationship that results from the joint venture.

Another highlight for me this year has been our progress on operating margin. Once again, we delivered excellent growth at the upper-end of our guidance. We have now increased our margins by 680 basis points over the last five years. This has been achieved, whilst at the same time increasing our investment in Marketing, Next Generation Products, entering a number of new markets and rolling out our TaO programme.

I am confident that on average, we can continue to grow our margin by 50 to 100 basis points per annum. We have continuing factory rationalisation opportunities and the roll-out of the new Group operating model will give us considerable efficiency and effective improvements over the years to come.

2013 has also been a year of strong share performance and we carry this good momentum into 2014. This growth was driven to a large degree by the continued success of our GDBs, which, despite their size in the portfolio, continued to outpace the industry with volume growth and some 5 percentage points ahead of the market.

The Global Drive Brands volume grew 1.9% to 237 billion. In total, they now account for 35% of our total cigarette volume. In an industry estimated to be down 3% to 3.5%, this is an outstanding performance which drove strong share growth over 60 basis points in the top 40 markets. The GDBs were a key driver of our 80 basis points improvement in premium share.

Turning to each of the GDBs: Dunhill enjoyed another excellent year. Volume was up nearly 10% in market share increase in our top 40 markets. Dunhill Mild Kretek continued its great performance in Indonesia, exiting the year with a national share of 2.5% despite only having been launched in March 2012.

Elsewhere, the brand saw good growth in South Korea with volume up over 5% and continued share and volume increases in Romania and the GCC.

In Malaysia, Dunhill further consolidated its leadership position in the market, reaching a record share of nearly 48% despite industry volume declines following the excise increase in October.

Dunhill also maintains premium segment leadership in Brazil and South Africa. Kent held share in our top 40 markets with good volume growth in the Middle East and Uzbekistan off-set by industry driven volume declines in Russia, Romania and Japan.

In Russia the brand held share and maintained leadership of the premium segment. The brand posted a strong performance in Japan, despite significant and competitive activity. It maintained overall share, with good results in the new slimmer range line-up. Kent remains our leading brand in innovation with the Kent Convertibles range growing volume by 18%.

Innovations now account for 77% of global volume and we have a very strong pipeline of investment behind the brand for 2014.

Lucky Strike made good share gains and was up 10 basis points across the top 40 underpinned by its strong growth in the ASU30 segment.

The market contractions in Western Europe and in particular Spain impacted Lucky Strike's volume. Share in Western Europe was up 20 basis points with good increases in France, Germany, Poland and the Benelux.

In addition, the brand continues to perform well in fine cut volumes at 7 percent driven mainly by Western Europe. Lucky Strike Additive Free continue to grow strongly, consolidating leadership position in Germany and France in this growing segment.

Pall Mall grew share and volume strongly. Volume was up over 4% with good performance in the Americas and Asia Pacific. Top 40 share grew 30 basis points driven by record shares in Mexico, Canada, Chile, Pakistan and Romania.

The good performance of the brand was supported by the rollout of capsules which are now in more than 20 markets. In the fine cut segment, Pall Mall grew volume by an impressive 7.5 percent and continued to grow share, consolidating its position as the number 1 fine cut brand in Western Europe.

Our total international brands also performed well. Together with the GDBs they now account for 57% of the BAT volume and were up 2.1%. In particular, Rothmans our contemporary value for money brand has found increasing appeal with consumers and a very strong year with volume up an outstanding 22%.

Given the brand is growing importance in the BAT portfolio and the investments we are putting behind it, we have now added Rothmans to our list of Global Drive Brands. Had it been included in 2013, GDB volume would have grown 3.5% and share would have been up 90 basis points.

Rothmans' 22% volume growth was mainly achieved by the launch in Russia where the brand exited the year with 2.5% market share. Rothmans further increased its geographical footprint with good volume and share growth in Ukraine, Algeria and Italy. This success was partially offset by volume loss in Egypt.

Of course, these days, no presentation from a tobacco company is complete without an update on Next Generation Products. As you know, we are the first of the international tobacco companies to introduce an E-cigarette to our subsidiary Nicoventures.

In July last year we launched Vype a new disposal e-cigarette into Internet distribution in the UK. Since then we have extended the range to also include a rechargeable version, Vype Re-load.

Although it is early days, Vype is doing well. Distribution has been gradually expanded into the organised grocery, convenience and retail pharmacy channels. Vype is now available in over 10,000 stores and share in handling is growing.

We are very pleased with the progress to date, not least because of the insight and learning we had gained through this targeted launch. In additional, Nicoventures is still working with MHRA on the two new products we have submitted for medicinal regulatory approval and they are progressing well, however, it is too early to give any expected commercial launch dates.

We are also making good progress with the development of our three reduced-risk Heat not Burn technologies that are in the test phase and they remain on track for a first launch over the next couple of years.

We continue to see novel non-combustible tobacco products to be an interesting potential category alongside the development of pure nicotine products, like E-cigarettes.

We believe Next Generation Products have a long way to go before they make a significant impact on the combustible business. However, our intention is to drive this segment, so we lead it whatever it may bring.

In summary, the revised strategy that we presented to you in 2013 is building on our successful track record and continued good growth. This is against a backdrop of a very challenging external environment and what was a year of adverse exchange rates.

Industry volumes remain under pressure and although there are signs of some economic recovery, unemployment levels are still high and there is a continued squeeze on disposal incomes, so I expect volume to remain under pressure.

However, as our results show, the business is performing very well. The industry has good pricing power and our brands are getting stronger each year. We are growing shares especially in the premium segment.

The GDBs continue to out-perform the market, driven by innovations. Margins continue to grow driven by tight cost management aided by the global roll-out of our SAP programme. Therefore, I remain confident of our ability to deliver high single figures earnings growth on a constant currency basis.

We remain committed to grow our cash returns to shareholders. I look forward to a gradually improving economic environment and BAT is well-positioned to take advantage of this when it comes. Thank you, and now we open it up for questions. Will you please state your name and your organisation before asking the question, please.

QUESTION AND ANSWER

Erik Bloomquist – Berenberg Bank – Analyst

Yes, Erik Bloomquist, Berenberg. Two questions. Firstly, could you give us a little more detail on the Heat-Not-Burn products, as we've not really heard much about those from BAT and just where you see those developing in relation to the clean nicotine products?

The second question is with respect to the illicit, which appears to be flattening out. But what are the prospects, as the economic recovery takes hold, of recovering some of that illicit volume which appears to have been a big drag on the European front? Thank you.

Nicandro Durante - *British American Tobacco plc – Chief Executive*

Okay, regarding Heat-Not-Burn, your first question. As I said during my presentation, and I think that I said it is in the last year as well and I have been talking to some of you during the year, we are developing three platforms in this area.

These developments have been going on for many years. That's not something that we started one year ago, so we have been working towards developing our Heat-Not-Burn products for the last seven, eight years.

We are testing some of them. We have three platforms in place nowadays. Three products being developed ready, but we are testing them. We should be piloting some of them at the end of this year, beginning of next year and we should be launching these in the next couple of years.

But this has been something that has been our thought for the last seven, eight years, so I think that's coming to the point that we are testing, we will probably pilot something at the end of this year, beginning of next year and should be launching in the next couple of years.

Regarding illicit trade. As I said several times before, it's very difficult to talk about illicit trade in a global basis. You have to talk about these things market by market. So every given year, we have some markets going up, some markets coming down. Our numbers, our research shows that illicit trade in 2013, in a global basis, it's an average, was 1 percentage point higher than in 2012.

However, we had some markets in which illicit trade went down last year; places like in Mexico, like in South Africa. And we had places in which illicit trade went up; places like Brazil, places like in Canada -- in Malaysia, for example. So it's market -- Italy went down as well during 2013.

So I think that if the economic conditions improve, disposable incomes gets better, unemployment gets lower, I think when you see economic conditions improving and what we saw in previous crisis, we will see some of the consumers returning to the DP markets.

So, if you ask my expectations for 2014, well, I don't think that's going to change dramatically because the biggest issue that you are facing in terms of economic recovery now is Europe.

I see some signs of recovery, but I think that disposable incomes is still under pressure; unemployment is still high and I think that the market in Western Europe in terms of decline in next year or this year, 2014, is going to be similar than 2013. But I see some signs of recovery, so we'll have to wait and see.

Richard Hughes - M&G - Analyst

Richard Hughes, M&G. Could you just say a little bit about the Australian situation on illicit trade and what's been happening there specifically?

Nicandro Durante - *British American Tobacco plc – Chief Executive*

Well, what we saw in Australia is the introduction of plain package in December of 2012. Before talking about illicit trade, if you look at consumption rates and impact in volumes, they were not significant. So we haven't seen, to be honest, any impact.

What we have seen so far is growth of illicit trade, and illicit trade has changed its form in Australia. It was a little bit of chip chop, so tobacco that was kept and sold in the streets. Now you have illicit trading more from cigarettes, and the size of illicit trading in Australia, that in 2012 was around 9% to 10%, 9.5%, now is around the 12% to 12.5%, so it has grown.

So what's going to happen from now on, I don't know. The government is working very hard to break it down. So we're having to wait and see, but that's the biggest impact of plain package introduction. It was the growth of illicit trade because every day, the consumption and volumes, we haven't seen any change in the trends.

James Bushnell – *Exane BNP Paribas - Analyst*

James Bushnell, Exane. A couple of questions please. Firstly, you mention in your restructuring note that you had some permanent headcount reductions. I just wondered if you could give us a sneak preview of the annual reports and tell us roughly how much it's come down, and maybe elaborate a bit on which areas that's from? So that's my first question.

My second question is on your acquisition strategy, and just to ask, I know you've been asked this many times in the past, but how flexible are you on returns for a strategically attractive acquisition?

And then my last question would be on the Q4 sales development, which seemed to be fairly strong, you mentioned it benefited in Denmark from stock-up ahead of an excise tax increase. Just wondered if there's any other timing issues that you would call out? Thank you.

Nicandro Durante - *British American Tobacco plc – Chief Executive*

Okay. So the question is acquisitions, the second question, the second one is about the volume such as Denmark in terms of loading and the first question was about the headcount.

So, in terms of headcount, it is a constant exercise in BAT to be honest with you. We are trying to be as efficient as possible, so we are moving organization that is trying to take advantage of the strengths that you have in terms of our capabilities in the center.
So there is a program now underway to relook mainly at the size that we have in the regions, but this is a constant exercise in BAT. So we have announced this already. We are going through I&C now in UK.

It's very difficult for me to tell you about numbers because I can tell you that's 200 people, but at the same time, I'm hiring 800 people in Indonesia for a trade market distribution capabilities.

So net-net, it's difficult to see the number on a global basis. So we are trying to reduce in areas that are not value added to the consumers, the areas that we can reduce in order to spend the money behind consumer added value.

The second question about acquisitions, if you are still interested in acquisitions that are creative, etc., of course, we are. So if there is anything out there that is interesting, we are looking at that. If it comes up to the market, we'll be interested.

It's that simple, so we have been interested in acquisitions, but usually to have an acquisition working, we needed to have a willing buyer, willing seller and a reasonable price. To have these three things together most of the time is difficult. But as soon as we have those three things together, we'll go for it.

The third question is about loading. Yes, we had some loading in Denmark at the end of last year because of an excise increase that we had in the beginning of January.

These are not significant in a yearly base. So our rate of decline is 2.7%. If you take the loading out, it wouldn't be that different.

It's more significant at a quarterly base. Probably there was an impact in the quarter of 0.6%, 0.7%, not more than that, 0.5%, 0.6%. So quarter by quarter, it had an impact, but not in a yearly volume.

And this is the biggest one that we had. I don't remember any other that was unusual, no.James Bushnell – Exane BNP Paribas - Analyst
What do you think of volume growth in Asia over the next couple of years? We've had Japan and other things going on in the last year or two. What do you think about that?

Richard Hughes - *M&G - Analyst*

Thank you.

Owen Bennett - *Nomura - Analyst*

Owen Bennett, Nomura. A couple of questions please. Firstly, given the planned investment of peers in 2014, I'm assuming you will also step up investment to defend share. Are you confident of doing 50 basis points to 100 basis points in 2014?

And secondly, I know you say share of premium overall is up. I'm just wondering how is this trending in Western Europe and how do you see this evolving in 2014, given likely competitive activities. Most notably, PMI said they'll be launching new Marlboro architecture in Europe during the year.

Ben Stevens - *British American Tobacco plc - Finance Director & CIO*

Shall I do the margin one?

Nicandro Durante - *British American Tobacco plc - Chief Executive*

Yes please.

Ben Stevens *- British American Tobacco plc - Finance Director & CIO*

Yes, we are confident that we can increase our operating margin 50 basis points to 100 basis points. We've done above that over the last couple of years. We don't say we're going to do it every single year, but on time 50 basis points to 100 basis points seems like a very achievable target for us.

We've got some transactional FX hits that count against that this year, but we've got the rollout of SAP that counts for it. We've taken some of our headcount down. We've got the returns on investments that we've made in markets in prior years that are coming good this year and, of course, we've got the rollout of SAP. So all in all, we remain confident of driving operating margin growth of 50 basis points to 100 basis points year on year.

Nicandro Durante *- British American Tobacco plc - Chief Executive*

We have been facing a very competitive environment across the world in the last couple of years. I don't think that anything is going to change in 2014.

The competition is launching new brands, as you said, but we have a lot of innovations to roll out in our markets as well. We think that we are still in line to deliver the high-single digit growth in constant currency, despite of the increased investment.

We are trying to take out of the organization, as I said, costs that are not relevant to the consumer, in order to be able to reinvest in the company. As Ben said, we believe that it can keep delivering the operating margins growth of 50 basis points to 100 basis points, increase our investments and delivering the share growth and our long-term strategic financial metrics. I don't see anything change in 2014.

Damian McNeela *- Panmure Gordon & Co. Limited - Analyst*

Damian McNeela, Panmure Gordon. The first question, just on pricing. I think this time last year, you indicated that you'd achieved 75% of your pricing. I'm just wondering whether or where you are on pricing in the current year to date?

And also, secondly on e-cigarettes, I think you've communicated your desire to be market leader. I'm just wondering whether we could expect further launches of Vype across Western Europe in 2014?

Nicandro Durante *- British American Tobacco plc - Chief Executive*

Yes. Regarding pricing, at this time of the year, we have achieved 60% of our pricing for 2014. It's a little bit lower than last year, but it's exactly according to what we expect at this time of the year for 2014.

Don't forget that last year we had a lot front-loaded excise increases, which drove faster -- which drove pricing in the first quarter. And this year, we have some excise increases lined up for the second quarter, third quarter. So we are getting the pricing that we expect to have at this time of the year. So pricing is going well, as I said in my speech.

If you look at the last five years, pricing -- price mix have been moving up around 5% to 8%. Last year was particularly strong with 7% and I don't see this changing for 2014. It will be in the range that we had in the last five years.

Your second question is about e-cigarettes. Well, we want to lead it, of course. Every time that you go to a new category, you want to lead it. We want to lead combustibles as well. We want to lead wherever we play.

So we have some products lined up for launch in 2014, 2015. And as I said before, we want to go to new markets as well. Unfortunately, I cannot be precise here about when we are going to launch these new products and when we are going to move to other markets, but, of course, in our plans.

Damian McNeela *- Panmure Gordon & Co. Limited - Analyst*

Thank you.

Jon Leinster *- UBS - Analyst*

Jon Leinster, UBS. A couple of questions. First of all, historically, you've often given some indication of where your premium versus mid-price versus discount volumes did, so I was wondering what that did in 2013?

And secondly, on the addition to Rothmans as a global drive brand, why Rothmans rather than Viceroy? And secondly, where does it come in terms of price points vis-a-vis Pall Mall, which has been the value brand in the past?

Nicandro Durante *- British American Tobacco plc - Chief Executive*

Okay. The first question is about premium, mid-price and low price. The size of the segments in 2014, for premium, it reduced a little bit. I think that premium lost something like 0.2 percentage point or 0.3 percentage point shares on a global base.

Aspirational premium, mid-price was a little bit up and low price was a little bit down. Low price was a little bit down, driven mainly by Russia. Don't forget that in Russia that you have price increases in the low-price segment of around, in the last three years, 100%; in premium, just 50% because of the change in excise system, and this has driven the global base a decline in low-price segment.

But in this premium segment, how we have done so far, we have grown 80 basis points in the segment, which is fantastic for BAT because it's the cornerstone of our strategy, to drive innovations through our premium portfolio.

And in the low-price segment, we have lost some share in places like in Poland, and in the aspirational premium, mid-price we have done a little bit better than the market.

So we have grown more in the premium and lost in the low, which is not a bad picture because of the margins that you get in the premium against the margin that you get in the low-price segment.

The second question is about Rothmans, why Rothmans. Well, the whole concept of global drive brands is that the brands that you are supporting and investing in a global basis. And considering what we have done for Rothmans in the last two years, this work, this exercise of course, has started three or four years ago, launch in Russia, it doesn't start three months before the launch.

We are investing heavily behind the Rothmans. It has got a very good traction in several markets across the world and we thought that is in the same bracket of the other four global drive brands in terms of support and investment and geographic exposure. That's why now it's a global drive brands. It's all about the focus and investments that you put behind the brand. It's in the same bracket as the other four.

Jon Leinster ***- UBS - Analyst***

And in terms of pricing against Pall Mall, is it a similar price?

Nicandro Durante ***- British American Tobacco plc - Chief Executive***

Rothmans, we have to talk market by market, but you go to places like Russia, Ukraine, the ones that we just launched, it's above Pall Mall. Its aspiration is value for money. Pall Mall is a little bit below that. It's what we call the international value-for-money segment, which helps us because it drives price up as well.

Adam, you have a question? You raised your hand?

Adam Spielman ***- Citi - Analyst***

You've grown market share in Mexico and Argentina for the first time in a long time. I think it's probably the second year actually. You were just beginning to turn in 2012. 2013, it's really coming through. Do you expect that to continue and if you -- what response are you seeing from Phillip Morris? I guess that's one question.

And I think you've already answered perhaps the other question, but around the world, I could see quite a lot of little price skirmishes, Brazil, Japan, and I think you're just going to turn around and say, pricing is fine. But more than usual comes to my attention and I was just wondering if you see any evidence that it's getting just a little bit sporty, as Paul Adams once said?

Nicandro Durante ***- British American Tobacco plc - Chief Executive***

Okay. Let me start with Mexico and Argentina, markets that we have done well, not only in 2013, but if you remember well, in 2012 in Mexico, you have a slight growth in market share. It was very, very strong in 2013; in Argentina the same.

The work behind the Mexico, and I remember when you were having this chat in 2011, you remember that, we said that we were working very hard in places like Mexico, like in Argentina, like in Indonesia, in order to strengthen our portfolio, because just through the strength of our portfolio and just through having better route to markets, for example, you can have a sustainable growth. And I think that you are achieving these in those three markets; that was one of your questions.

Indonesia, for example, if you look at our share in the strategic portfolio behind the two most important brands that you have there and you are driving, the share nowadays is 62%. When you look at back one year before, it's less than 30%.

You will just see that we haven't lost market share in Indonesia in the last 12 months; it's a stable share. But the quality of the share performance is incredibly better and more premium because Dunhill Mild is premium. So we are very happy with the change in the portfolio.

The same thing happened in places like Mexico and Argentina, through migrations from local brands to international brands. Now we are going for a migration in Mexico, for example, from local brands to Lucky Strike. It's worked extremely well; early results, but it's worked extremely well.

So I think that those performances are sustainable because this is not a kind of we are playing with prices to get some short-term share gains. We are just doing the basics right, and I think that it shows the results in the long term. So I think that's sustainable.

I cannot guarantee that you'll see 1.5% share growth in Mexico every year, but do I believe that we are in a very strong position in Mexico to continue growing; the answer is yes.

Regarding the pricing, if I see more skirmishes than I saw in the past, it's very difficult to say, but of course, we see some skirmishes around the world nowadays and we are responding whenever it's necessary.

But I like to take the high ground here and look at the size of the price mix that we expect in 2014. It's going to be in the range that we have in the last four years, five years. I think that's going to be very strong for the prices that we have already taken, and for what we're expecting for the end of the year. So I think that prices are going to be very strong in 2014.

Adam Spielman ***- Citi - Analyst***

Why didn't you take more pricing in Japan?

Nicandro Durante ***- British American Tobacco plc - Chief Executive***

Well, the government gave a direction that they were expecting that the price increase will follow the size of VAT increase. The VAT increase was 3% and the price increase that we went for in Japan was 2.94, it was 3%.

So we followed the government guidance. If you look at the competitors they followed as well. JT was a little bit higher than that, 4%; and Philip Morris was very close to ours. So we just followed the government direction.

We would love to have 20% price in Japan, but unfortunately, it's not possible. So the government gave a direction that they would expect the companies, not only tobacco by the way, all the companies affected by the VAT increase, they would have to follow the size of VAT increase that was around 3%.

And in Japan, you cannot have the prices all go up at JPY10 or JPY20. When you put JPY10, JPY20 in your portfolio, you can end up 2.95% or 3.15%, so it depends on your portfolio, the JPY10, JPY20. So it was around 3%.

Erik Bloomquist ***- Berenberg - Analyst***

Erik Bloomquist, Berenberg. Two follow-up questions please. The passage of the TPD by the European Parliament, that appears likely to restrict some of the avenues for innovation. I was wondering if you could comment on what you see as the ways to maintain brand differentiation in Western Europe post implementation of TPD?

And the second question was just for Ben briefly. In the past, I think you've commented on the margin expansion composition as being about half pricing and half from cost saves. Is that true of what you delivered in 2013? And how do you see that going forward? Thanks.

Nicandro Durante ***- British American Tobacco plc - Chief Executive***

In terms of TPD, the measures that we are seeing, the TPD is a number of regulatory measures that we have seen implemented across the world already. So there is nothing new here.

We have been able, in other markets in which those measures have been implemented, to be able to differentiate our brands and implement the innovations pipeline that we have.

Second, you have to take into account that when you develop our portfolio of innovation, we develop, take into account the regulatory framework that we are going to face in the next 10, 20 years.

So I think that we will be able -- of course, I cannot disclose to you now, but the line-up of innovations that you have to come to the market in the coming years will be able to be implemented, differentiate our brands in order for us to keep growing market share and grow our premium share, so I have total confidence on that.

Ben Stevens ***- British American Tobacco Plc - Finance Director & CIO***

Yes, on operating margin, what you get on the positive side of operating margin is obviously pricing and overhead reduction. What you get on the negative side is the cost increases and the impact of volume reductions.

So last year, pricing was enough to offset the impact of cost increases and volume reductions, and the overhead reductions that we did came through as the increase in operating margin. And that's pretty much going to be the pattern going forward until we see volumes recover.

Henry Davies ***- BofA Merrill Lynch - Analyst***

Henry Davies, Merrill Lynch. Three questions, please. Firstly, can you give us an update on the excise proposals in Australia? Are they set in stone for the coming years, and what amount of pricing do you need to pass that on?

Second, just on plain packaging. Discussions in the UK and Brazil, just what your feel is on the potential likelihood in both of these markets and the potential time line before we get a decision?

And thirdly, on e-cigs, I think you said in the interview this morning that the technology still needs to improve quite a bit. I'm just wondering, where do you think the current products are lacking for the consumer and what are the main areas to focus your efforts on, on that front going forward? Thank you.

Nicandro Durante ***- British American Tobacco plc - Chief Executive***

Okay. Let me start with Australia. Well, we have the plan in Australia to move excise up 12.5% for the next four years. We have the first move at the -- in December 2013. And we had price increases already, in January, to offset or to pass on to the consumers the excise. I don't see this changing.

If it's set in stone or not, I'm not sure. I know that there is a review in Australia, by a special commission of the government, to look at the effectiveness of those measures. Do I have an expectation that it's going to change? No. But let's wait and see.

Do I -- I think that the industry's going to pass to consumers the excise increases that come in the coming years. So it's that simple. We are not going to absorb excise. I would be very surprised if the industry absorbs excise, because it's not something that you do.

The second question, about plain packaging. Regarding Brazil, well, you know more than me. I haven't seen anything in Brazil regarding movements on plain packaging. Of course, everybody talks about plain packaging, everywhere in the world, but I haven't seen anything in Brazil, any serious movement to move into that direction. So I'm not really aware about any serious movement in Brazil of introduction of plain packaging, to be honest with you.

Henry Davies ***- BofA Merrill Lynch - Analyst***

The health authority and VISA (multiple speakers) --?

Nicandro Durante ***- British American Tobacco plc - Chief Executive***

Yes. As I said, all the health authorities around the world, when they are interviewed, they talk about plain packaging. But from there to assuming that you have a movement that is going to implement plain packaging is a long way to go.

And remember, one year ago, when the Health Minister in France said that plain packaging could be a good thing for France, and one month later, we have this meeting here, everybody's saying that when is it going to be implemented in places like that. So it's difficult too. So, I'm not sure.

In UK, as I said before, we had -- it's going through a review now, a special commission to review the consequence of potential implementing plain packaging. The review is coming, I think, that March and April?

Henry Davies ***- BofA Merrill Lynch - Analyst***

Yes, towards the end of the March.

Nicandro Durante ***- British American Tobacco plc - Chief Executive***

Towards the end of March. We have to wait and see. The BAT position about plain packaging is that we don't think that there is any scientific evidence of the effectiveness of this measure in achieving any of the public health goals. So we are going to fight against it, because we don't think that it's effective. But then, we have to wait and see.

Regarding e-cigarettes, there is a long way for e-cigarettes to provide the same, if I can say that, to mimic a normal combustible cigarette. The kind of nicotine that you have when you smoke the product, the first puff is very low, in terms of nicotine. And so there are several aspects in the e-cigarette product that do not satisfy the consumers.

As I said, this is something that a lot of companies are working very hard behind, in order to provide products to the consumers that at least mimic the satisfaction that they have smoking a combustible one. And I think that there will be some progress in this area, one I think that's going to be slow. And as I said before, we have to wait some years to see this progress coming.

Henry Davies ***- BofA Merrill Lynch - Analyst***

Can I have just one more question?

Nicandro Durante ***- British American Tobacco plc - Chief Executive***

Yes, can I have -- we are running out of time. Can I have one more question, you have --

Chas Manso ***- Societe Generale - Analyst***

Chas Manso, Soc. Gen. If I can be greedy and squeeze in three questions. The first -- I hope they're quick. On innovation, could you just give us an update on innovation generally? You used to give out the percentage of your portfolio, the percentage of your GDBs that contained innovations and how much growth in the year came from innovations. Could you just update us on that?

The second thing, on emerging markets; the impact so far is predominantly on FX; but some people are wondering is there going to come a point where there's going to be a real economy impact on consumption; on squeezed disposable incomes. Could you give us our thoughts on whether you see a real economy impact in 2014?

And lastly, on the premium side of your portfolio; could you just tell us how much your premium volumes moved in 2013? Thank you.

Nicandro Durante ***- British American Tobacco plc - Chief Executive***

In terms of premium share, was 80 basis points. In terms of premium volume, that's quite a good question. I think that the volume was flat, but in a market that is declining to 3.5% in a segment that is down 0.3%. So it just shows how strong we are in that segment, as I said before.

Regarding innovation, we have innovations growing in 2013 20% higher than the previous year. In terms of the brands and the GDBs, we have growth, for example, 81% in Dunhill; 75% in Kent; 35% in Lucky Strike; 20% in Pall Mall, for example.

So it's huge growth, but this is the consequence of rolling out innovations across the world. As I said before, it's not only about the new innovations that you bring to the market; it's all about rolling out the existing innovation.

So we have implemented a duty-free behind Lucky Strike in many markets. We have just launched, for example, a national launch in Brazil. We have tubes in the filter in Kent; in Russia, Ukraine and Japan, for example. So we are rolling out innovations across the world.

A tube in Canada as well, it's performed extremely well. So there a lot of innovations, not only about the new ones, but also the ones that we have in place, and is going to be rolled out.

The second question -- you want to take it?

Ben Stevens ***- British American Tobacco plc - Finance Director & CIO***

Well, the second question was on emerging markets; do we see a decline in the economies of emerging markets? I think we'll have to wait and see. You've still got strong growth in places like China. We may see a slight decline in GDP, with growth in emerging markets, but the tobacco volume tends to be much more related to unemployment levels than to pure GDP levels. And we don't see any big rise in unemployment in emerging markets, going forward. So we remain pretty confident.

Nicandro Durante ***- British American Tobacco plc - Chief Executive***

Okay. We are coming to end of the session. Thank you, guys, for coming today; really appreciate that. Thank you very much.