British American Tobacco Preliminary Results 2015
Thursday 25 February 2016

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P R E S E N T A T I O N

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

Good morning, everyone, and welcome to British American Tobacco's full-year results presentation. I am Nicandro Durante, Chief Executive of British American Tobacco and with me this morning is Ben Stevens, our Finance Director.

As always, a warm welcome to those of you who may be listening on the conference call or watching via our website, bat.com.

As usual, after taking you through the results presentation there will be an opportunity for those of you in the audience to ask questions.

I am very pleased to say that BAT delivered an excellent performance in 2015 across all areas of our strategy. This was achieved in the face of unprecedented ForEx headwinds, and a difficult trading environment.

The global recovery has been slower than anticipated with continued political economic turmoil in a number of our major markets. Despite this, we achieved very strong results, masked only by significant ForEx headwinds, both translation and transactional.

Our share performance has been very strong in recent years, and the pace has accelerated during 2015 with the GDBs driving a record share performance. We grew corporate, GDB, and premium shares strongly, significantly outperforming the industry.

Constant currency EPS was up over 10%, exceeding our high single-figures earnings growth commitment. This is an excellent result, given the significant transactional ForEx impact on the cost base. Excluding the 6% impact on operating profit, EPS would have been up 16%, one of our strongest performances in the last 10 years.

Once again, we are recognising this strong underlying performance with an increase in the dividend of 4%, demonstrating our continued commitment to growing shareholder returns.

Ben will now take you through the numbers in more detail.

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

Thank you, Nicandro, and good morning everyone.

As Nicandro mentioned, the Group performed very strongly in 2015, despite a challenging external environment.

Cigarette volume was down only 0.5% in an industry we estimate to be down around 2.3%. Excluding the TDR acquisition, volume was down 0.8%. This is the result of particularly strong year of corporate share growth, up 40 basis points, and another outstanding performance from the global drive brands with volume up 8.5%, and share up 120 basis points.

Currency movements continued to impact reported numbers. However, on a constant basis we grew revenue 5.4%, profit 4%, and EPS 10.1%. Excluding the transactional FX impact of 6%, operating profit would have risen 10% and earnings per share by 16%.

Price mix was 5.9% and compares very favourably with the 4.2% achieved in 2014, reflecting a continued improvement in the pricing environment over the year.

Underlying operating margin was up around 160 basis points, although on a reported basis it was down 60 basis points, as I'll explain later.

The translational FX headwind for the year was 10% at the EPS level, leaving adjusted earnings per share marginally higher at 208.4p. However, on a constant currency basis we have again delivered on our commitment for high single-figure earnings growth.

Currencies were obviously a key feature of 2015 and, based on current spot rates, they remain a challenge for 2016.

As you can see from the slide, the impact of FX increased over the course of 2015 as rates deteriorated.
Currency translation reduced operating profit by 7% in the first half and this increased to 16% in the second half, while the transactional FX impact increased from 4% to 8% over the same period.

Although the translational impact is improving in 2016, given the delay caused by the timing of hedges rolling off and the scale of FX movements in the latter part of the year, we're facing a similar full-year transactional FX impact in 2016 of 7% on operating profit, based on current spot rates.

For translation, the headwind for the full year would be 1% on both operating profit and EPS.

Turning now to margins. We made good progress on the margins during 2015 with an underlying improvement of around 160 basis points. This was more than offset by the transactional currency impact of 190 basis points, with like-for-like margins down just 30 basis points.

The effect of the TDR acquisition and a change in accounting treatment relating to income from a small distribution partner in the Middle East contributed to reported margins down 60 basis points. Excluding transactional FX, all regions would have seen good margin growth.

As you know, on average over the years we aim to grow our operating margin between 50 basis points and 100 basis points per year, and I remain confident in our ability to achieve this. Delivering this performance in 2016 will be a challenge, although we'll continue to make significant progress on an underlying basis.

So, in summary, significant foreign exchange impacts, both translational and transactional, have masked a very strong underlying performance. Excluding translation and the 6% transactional impact on operating profit, profit would have been up 10%, and EPS would have been up 16%.

Turning now to the regions, all four regions performed well. Strong share growth in AsPac, EEMEA, and Americas, and a recovery in Western European industry volume led to overall volume significantly outperforming the industry.

This, together with improved pricing, drove strong top-line revenue growth.Revenue growth in AsPac was held back by the effects of a strong prior-year comparator and continued down trading in Australia.

I'll now take you through each of the regions in more detail. At the regional level, I'll quote the profit increase at constant currency excluding the translational and transactional FX. When I quote markets, the adjustment is only for translation.

Asia Pacific delivered strong underlying results. Share was up 70 basis points with growth in 9 of its 11 key markets, aided by another good performance from the GDBs across the region with their volume up 5.6%.

As a result, regional volume was marginally higher, driven by strong results in Bangladesh, Japan, Indonesia and Vietnam, significantly outperforming the industry, which was down over 3%.

Good revenue performances in Vietnam, Bangladesh, and Pakistan were more than offset by unfavourable FX, geographic mix dilution and the ongoing competitive environment in Australia. However, excluding transactional FX, which mostly affected Japan, New Zealand and Indonesia, constant currency profit was up around 4%.

In Australia, profits were significantly lower, as the duty-paid market continued to be impacted by the large excise driven price increases, associated down trading, and the pricing environment. A strong performance from Rothmans, together with an improving performance from Winfield, was offset by declines in other brands, leading to stable market share.

Volume was up 1.2% in Japan, against an industry down 2.1%, as share continued to grow. However, profit was down, mainly due to the weakness in the yen, partly offset by productivity savings.

Another good performance from Dunhill in Indonesia drove volume and share growth. Profitability was impacted by higher marketing investment, adverse foreign exchange, and higher clove prices.

Market share and profit grew strongly in Pakistan. Volume was down due to market contraction, following excise-driven price increases.

In Malaysia, profit was stable and share grew, driven by Peter Stuyvesant, although volume was down, following a large ad-hoc excise increase in November.

In the Americas, strong pricing led to double-digit constant currency revenue and profit growth with good performances in Canada, Chile, Mexico and the Caribbean.

Transactional FX reduced operating profit by more than 5%, mainly impacting Brazil, Venezuela, and Columbia. Excluding this, profit would have increased around 16%.

Regional volume was down 5.2%, largely as a result of industry volume declines in Brazil and Argentina, partly offset by growth in volume in Mexico. However, share in the region was up 20 basis points.

In Brazil, consumer disposable income came under increasing pressure, due to rising unemployment and inflation and a weak macroeconomic environment. This, together with excise-driven price increases, led to significantly lower duty paid industry volume, and competitor pricing activity in the low segment. As a result, profit at constant rates was lower. However, Dunhill maintained its growth momentum with share up 120 basis points over the year.

Favorable pricing and cost reductions in Canada drove another year of constant currency profit growth. Volume and share were down, as a result of competitor activity and growth in the low-price category. However, Pall Mall continued to grow shares strongly.

Mexico delivered another outstanding performance. Volume growth, good pricing, and continued share gains, driven by Pall Mall and Lucky Strike, led to a strong increase in constant currency profit.

In Chile, good pricing and up-trading also resulted in strong profit growth, despite lower volume.

The Global Drive Brands performed very well across the region with volume up over 7%, driven by excellent performances from Pall Mall in Mexico and Canada, Lucky Strike in Chile and Mexico and Dunhill in Brazil.

Western Europe saw an improved pricing environment with increases implemented in the majority of the market. Good performances in Germany, Romania, and Denmark helped increase profit by 5.1%, which would be 6% excluding transactional FX.

Volume in the region was up 0.5%. This benefitted from the acquisition of TDR and the unwinding of the inventory build in Denmark in 2014. Excluding TDR, volume was down 1.1% as growth in Romania, Germany, and France was offset by decline elsewhere in the region, mainly due to industry contraction. Regional share was down by 10 basis points over the year, although share was up in five markets over the same period.

Romania delivered a very strong performance. Profit at constant currency increased, driven by good pricing, cost savings and growth in volume and share, with Pall Mall and Dunhill continuing to perform well.

In Germany and the UK, profit on a constant basis increased as a result of higher pricing and improved market share.

GDB volume was up 4.3%, driven by good performances from Rothmans in the UK and Italy, Pall Mall in Poland, Germany, and Romania and Lucky Strike in France, Germany, Serbia.

EEMEA delivered another strong underlying performance against the backdrop of significant FX movements and a volatile economic and geo-political environment. Constant currency revenue was up 7.5%, driven by strong pricing. The depreciation of the Russian Rouble, Ukrainian Hryvnia, and Nigerian Naira, amongst others, resulted in a large transactional FX impact of over 13% on profit. Despite this, constant currency profit grew 1.3%. Excluding transactional FX, constant currency profit would have grown by more than 14%.

Volume in the region was up 1.1%, driven by Turkey, Ukraine, Kazakhstan, and the Middle East. Regional share grew strongly, and was up 50 basis points.

Strong pricing in Russia was offset by lower volume and transactional FX, leading to a decrease in profit. However, market share continued to grow, driven by Rothmans.

In South Africa, volume was down, due to growth in the local low-price segment, where BAT does not compete. However, profit was stable, as a result of good pricing. Market share decreased, despite good performances from Pall Mall and Benson & Hedges.

In Turkey and Ukraine, volume was up and market share grew strongly, driven by Rothmans.

The GDBs delivered an outstanding performance with volume up 14.4%. This was led by Rothmans, with Kent and Dunhill also performing well.

Adjusted EPS of 208.4p at current rates was marginally higher as growth in operating profit, together with excellent results from our associates, in particular the enlarged Reynolds American business, were offset by a 10% translational currency headwind.

Although net finance costs increased, mainly due to M&A funding, our average cost of debt improved.

There's a small carry over from the share buyback program, which was suspended in July of 2014.

The effective tax rate fell marginally to 30.5%.

Non-controlling interests were lower, due to the buyout of the Souza Cruz minority.

Now, on to cash flow. Overall, free cash flow was GBP3,481 million, which is GBP974 million above the same period last year. This was mainly due to the receipt of GBP963 million in the UK related to the Franked Investment Income Group Litigation Order, and the absence of the 2014 non-tobacco litigation charges. This case is still in the judicial process and as such we've treated the payment as deferred income. Any future recognition as income will be treated as an adjusting item.

Depreciation is the main component of non-cash items. Working capital outflows were lower than last year at GBP263 million, and were mainly due to stock builds linked to the timing of excise-driven price increases.

Gross CapEx of GBP591 million benefited from FX and was partly offset by asset sales, giving a net CapEx of GBP483 million. Based on current rates, we expect gross CapEx to be slightly higher than last year, mainly due to investments in NGP.

Our operating cash flow conversion rate was slightly up at 92%, reflecting our ability to generate strong cash flows.

Shortfall funding for pensions related to the UK schemes and was in line with last year.

Net interest paid was higher, primarily driven by the M&A activity, offset by the benefit of lower refinancing costs on the Group debt.

Tax outflows reduced, largely as a result of exchange rate movements.

Restructuring and settlement outflows were lower as increased restructuring costs were more than offset by the absence of non-tobacco litigation costs in 2015.

This delivers free cash flow of GBP3,481 million.

I'd like to finish off by touching on financing and shareholder returns. Net debt increased by GBP4.6 billion to GBP14.8 billion, as a result of the M&A investments, leaving net debt-to-EBITDA at 2.8 times. Although this is slightly higher than our long-term net debt-to-EBITDA corridor of 1.5 times to 2.5 times, we're comfortable at the current levels, with interest rates where they are today.

Our credit ratings are unchanged at A3 by Moody's, and at A- by S&P.

We've increased our full-year dividend in 2015 by 4%, pushing up the payout ratio to 74%, in recognition of the strong underlying performance of the business.

Thank you and I'll hand you back to Nicandro.

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

Thank you, Ben.

As you have heard, the Group performed very well in 2015 with strong top-line organic growth. This was driven by improved volume and pricing across all the regions, as well as strong corporate share growth.

Constant currency operating profit growth of around 10%, excluding transactional ForEx, was an outstanding achievement in the current environment.

GDB volume was up 8.5%, and their share was up a record to 120 basis points. Their growth accelerated over the year and premium and key segment shares continued to improve with good momentum going to 2016.The GDBs now account for over 45% of the overall portfolio in terms of volume.

The GDBs have gone from strength to strength, and the investment we have put behind innovations and product quality is clearly paying off. More than half of our GDBs now carry some form of innovation.

This demonstrates the underlying health of the business.

And now, turning briefly to each of the brands.

Dunhill delivered another excellent performance with volume up 6%, and share up 30 basis points, driven by continued growth in Indonesia, Brazil and a strong performance in South Korea.

In Indonesia, the launch of Dunhill Filter, a full-flavour kretek, in November 2014 has been the most successful launch in recent years and has already reached a market share of 2.4%. Overall, Dunhill volume was up almost 50% in Indonesia, reaching a national share of nearly 5% in December.

Dunhill's strong performance in Brazil also continued with market share up 120 basis points to 13% in December. The brand leads the premium segment with a share of 34%.

In Malaysia, Dunhill maintained its 47% share, despite down trading and volume decline in the legal markets as illicit continued to grow.

In South Korea, an updated pack, product, and communications campaign drove strong share growth of 110 basis points to 12.8% of market, following the 80% excise-driven price increase in January.

Finally, in Romania, Dunhill grew 30 basis points to reach a record share of 5.8%.

Dunhill's strong overall share performance remains one of the key drivers of the Group's continued growth in premium share.

Kent volume was up 3.3%, despite significant industry volume declines in a number of its key markets.

The strong volume performances in Iran, Turkey, Japan, Chile, and the Middle East were partly offset by decline in Russia, Ukraine, Azerbaijan, and Romania, mainly due to market contractions.

Share was up in Japan and Turkey, offset by declines in Romania and Russia. However, Kent held share in the premium segment in Russia, and remains the leading premium brand.

In Ukraine, Kent continued to grow share of the premium segment, despite the more competitive price environment.

In Iran, Kent's growth momentum continued, as a result of slimmer variants.

And in Japan, share grew 50 basis points to a record 7.6%, driven by tubes, convertibles, and Kent slimmer variants.

Lucky Strike posted another good result, growing both volume and share. Volume was up 3.6%, driven mainly by France, Serbia, Belgium, and Chile. Share grew 10 basis points, due to good performances in France, Argentina, Mexico, and Belgium.

In France, Lucky Strike is the fastest-growing brand in the market, exiting the year at 8.2% share. This was largely driven by the Black series single and double capsules offers.

The new smooth series non full-flavour range was recently launched in Germany, and the early results are very promising.

Pall Mall had another good year with volume up 0.4%. This was driven by growth in Pakistan, Venezuela, Germany, Poland and Mexico, partly offset by decline in Italy, due to the migration to Rothmans. Excluding the effect of the migration, volume was up 2.6%.

Pall Mall continued to grow share strongly in Pakistan, driven by the successful introduction of tubes.

In Germany, Pall Mall is the fastest-growing value-for-money brand, and is now the second-largest brand in the segment. In Romania, it remains the fastest-growing brand in the market, up 190 basis points over the year to an exit share 16.2%.

In Mexico, capsules continued to drive share growth and the brand reached a record national share of 18.5%. Pall Mall also grew share in Poland, driven by tubes, as well as Canada, and South Africa.

Pall Mall's overall share was up 10 basis points.

Rothmans continued its outstanding performance with volume up over 46% and share up 70 basis points. This was driven by strong performances in Russia, Ukraine, Turkey, Italy, Australia, Kazakhstan and the UK.

Rothmans continued to grow both volume and share in Russia, reaching a new record share of 6%.

In Turkey, Rothmans was launched in January and by December had already reached the 3.2% share, driven by tubes. Rothmans has been the fastest-growing market entry in Turkey in the last 10 years.

In Italy, Pall Mall was successfully migrated to Rothmans and continued to grow throughout the year, with post-migration net increase in exit share to 7.8%.

And in Australia, Rothmans grew to a high of 14.6%. This is the highest Rothmans share globally, achieved just 18 months after its re-launch.

Moving on to margins. As Ben has said, transactional ForEx affected reported margins in 2015 and it seems likely this will be the case in 2016 as well. However, the progress on our cost base has continued to be strong with underlying improvement last year of over 160 basis points.

The TaO programme was completed on time, and on budget, with only those markets not part of the original programme, such as Indonesia and TDR, to be completed. As the new operating model is embedded globally, significant further efficiencies will be realized.

This gives me the confidence that we continue to grow margin -- we can continue to grow margin by an average of 50 basis points to 100 basis points per year over the medium term.

We have consistently delivered against our aim of high single-figure earnings growth at constant rates for nearly 20 years. 2015 was no exception with EPS up over 10%. This was achieved whilst continuing to invest in the long-term success of the business.

The investment in our innovations and the rollout to new markets continued during 2015 with volume up over 14%. More than half of the GDB volume, and more than one-quarter of Group volume, now carry at least one form of product innovation. This is a key driver of our strong share growth.

The investments we have made in to new growth market opportunities, such as Indonesia, the Philippines, and Algeria, are also showing good results.

For example, we are growing overall share in Indonesia, and the strategic brands, Dunhill and Club Mild, now account for nearly 90% of our volume in the market; up from 10% five years ago.

In the Philippines, we hit a 1% national share for the first time, and we have 3 share points in Greater Manila; up 90 basis points over last year.

In Algeria, we achieved strong volume and profit growth. We are the fastest-growing company on a share basis, and Rothmans is now the number two international brand in the market.

I am very happy with the progress we are making in our investment markets. These will be the profit growth drivers for the future.

We also had an active year in M&A in 2015. We have already started to benefit from our investment in the enlarged Reynolds business. This has been demonstrated by its improved contribution to our earnings and excellent recently reported results.

In Brazil, we completed the buyout of Souza Cruz minorities early this year, and it is now a wholly owned subsidiary. We have already started to further integrate the business in to the region, and have announced the closure of its factory in Cachoeirinha. The economic environment in Brazil has deteriorated significantly over the last year; however, Souza Cruz is a very strong business. It has a powerful brand portfolio and a growing premium position.

We also acquired TDR in 2015. We are making good progress with the integration and have already completed the migration of Benson to Rothmans with others planned in 2016.

The acquisition of the CHIC Group in Poland gave us over 800 dedicated points of sale. This provide us with important scale and market reach in the growing Polish e-cigarette market, and a number of leading e-cigarette brands, as well as R&D and manufacturing capabilities. We also acquired a state-of-the-art e-liquid facility, which has mixing, bottling, and packaging capabilities.

And we are making great progress with our NGP investment.

For those of you who came to the IR day in September, you know that our ambition to lead in the NGP category worldwide has advanced substantially during 2015.

In the UK, we added the eTank and e-liquids to our Vype portfolio, and refill purchases are up over 50% in the last six months.

We have rolled out Vype across five new markets: Italy, Poland, France, Germany and Colombia. Early indications are positive.

In Poland, we plan to utilize the CHIC national retail outlet network to promote and distribute Vype within the country, giving us critical mass. The CHIC business also adds an exciting portfolio of vapour brands to the existing BAT portfolio. There are five leading brands in Poland, and three standalone brands of e-liquids.

In THP, we have two platforms. The first, GLO iFuse, which combines tobacco heating and e-cigarette product technologies, has been in test market in Romania for six weeks. It's very early days, but so far we are encouraged and excited by its performance and consumer feedback. The second, our electronic heating system, will, we believe, take this form of THP to another level. We will launch this in the second half of 2016.

Finally, in the licensed medicinal products category, we have been fine-tuning the production processes for Voke. It is a complicated product that must be manufactured to very strict standards. However, Voke will be launched this year.

As we always said, we are enthusiastic about the opportunity in NGPs, and believe that all the three categories, vapour, tobacco heating products, and licensed medicinal products, offer great potential.

So, in summary, 2015 has been a strong year for BAT.

Revenue, profit, and EPS, excluding translation and transaction currency effects, were up 5%, 10%, and 16%, respectively.

This is a very strong performance, which was underpinned by record corporate and premium share growth, driven by an outstanding performance from the GDBs.

In recognition of the underlying strength of the business, and demonstrating our commitment to growing shareholder returns, we have again increased the dividend by 4%.

Although it's only early in the year, the economic environment is still very challenging and, at current rates, currencies remain a significant headwind for the business.

The timing of the transactional ForEx impact, marketing spend and our investment in NGPs will mean that, as in 2015, our results will be skewed to the second half.

Nevertheless, at this stage, I am confident of another good year of constant currency earnings growth.

Thank you. And I will now open it up to questions.

QUESTION AND ANSWER

Stephanie D'Ath – Bank of America Merrill Lynch – Analyst

Could you please give us an outlook on your four biggest profit pools? It was, if I remember right, they were about 40% of your earnings. And if we look at Brazil, it looks like illicit is taking share, maybe an update on the lawsuit in Canada regarding Imperial Tobacco. And in terms of South Africa, we saw an excise [up to 7 billion now]: how do you expect revenues to be impacted by that? In Russia, if I understand well, you lost a bit of share. Do you expect that to (inaudible). What is your outlook on volume for the industry in Russia? And then finally, on Australia, (inaudible) [are changing], so please give us your thoughts.

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

I'll try to answer everything, maximum three hours, so let's see if I can.

Let me start with Canada. First of all, the five biggest profit providers of BAT are the same: Canada, South Africa, Brazil, Russia and Australia. They were 40% of our profit some years ago, two years ago, now it's 36%, 36.5%, so the change is not significant. I see this -- we want these companies to grow fast, but also to have a better spread of the profit is not that bad.

But there are some inaccuracies in your question. Let me start with Canada. We have been growing profit in Canada strongly four years in a row. We are doing very well in Canada. We lost some share last year in the very low-price segment: that's something that we want to compete, but we don't want to compete so strongly there. So Canada is doing extremely well. And profit has gone up in the last four years and Canada had a very strong 2015 in profitability terms.

Going to Russia, in which you mentioned that we lost share, we are the only company growing share in Russia for three years in a row. Last year, we grew market share in 2015 against 2014. And if you look at exit share in Russia in 2015 against exit share in 2014, it's a better measure over the last 12 months, we grew share, 1 share point; so 100 basis points. We are doing very well in Russia. Of course, the profit in Russia has been affected by translation and transactional ForEx, and excise increases as well. As you know, in the case of Russia we have a volume decline. I think that Russia declined last year around --- I had the number here somewhere. Russia was declining last year 4.5%; but in reality, underlying it was around 7% to 7.5%, because we had some stock movements. And this year, we also had substantial excise increases and price increases. But don't forget that excise in Russia is still very low, a little bit above 40. Price increase in Russia, because of the minimum collectable excise, you have price increases in the low-price category moving faster that in high price. So last three years, on average, premium is moving prices of 17%, low price around the 28%, 29%; that's one of the reasons that you see volume decline.

Going now to Brazil, in the case of Brazil, of course, Brazil is difficult. As I said in my speech here, economic, there are some challenges in economic environment in Brazil. We had five years of excise plan in Brazil that finished last year. But the government had an additional excise increase there; that didn't affect only the tobacco category, I have to say, it was across the board, and you affect Souza Cruz results. How much is going to affect Souza Cruz's results in 2016, have to wait and see the impact on illicit trade. The government did a fantastic job in 2015 on illicit trade. Illicit trade went down in Brazil 2015 against 2014, so we need to see how illicit trade is going to react. But that will be impacting in the results, of course.

So we go to Australia now, trying to answer all the big markets. Australia kept market share at 40%. We had a price increase that just happened two weeks ago: we moved prices up, and the competition has followed. We have a small real price increase in Australia now, more or less the same amount that you had last year; a little bit higher. So prices are moving a little bit slow, but prices are moving. The prospect for 2016, we'll have to wait and see. Illicit trade is around 14.5%, 4.5% higher than before the introduction of plain packing; that's one of the consequences of plain packaging. The profit in the country has been affected, of course, by down trading, which was caused by the industry going to the low-price segment, because the industry was not there. We just had one competitor that was playing there. But because of the sizeable excise increase and price increase that segment started growing, and then we had to follow; we, and one of our competitors. So that's the situation in Australia.

South Africa, we have a strong Company, strong brands, and the Company is doing well. We have some share losses which last year happened to mainly to local players playing the low-price segment. That's the situation in South Africa. But the brands are performing very well. Dunhill, Peter Stuyvesant, Rothmans, all these brands are doing very well there.

I hope that I answered most of your questions, but you'll come back if I haven't answered any.

Stephanie D'Ath – Bank of America Merrill Lynch – Analyst

(inaudible) the lawsuit in Canada, the company of Imperial Tobacco had a big lawsuit going on (inaudible)

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

Yes. You want more answer on that, Jerry, would you answer the question. Jerry's our general counsel, so he can give you a more detailed answer on that.

Jerome Abelman ***- British American Tobacco plc –Director, Legal & External Affairs and General Counsel***

I think you're asking about the Quebec class action. So we had a security order issued in October requiring Imperial Tobacco Canada to make quarterly deposits of -- well, totaling 758 million, broken up over seven quarters. The first deposit went in at the end of December, and will continue until such time as we win the appeal. The appeal should be argued this November. And we remain very confident about the appeal. And -- yes. So the big difference is there was an order earlier in the year that would have required the money to go out from the defendant to the plaintiffs. The order that came in October, the money is held in court and will be returned if and when, we hope, we win the appeal. Okay?

Adam Spielman – ***Citi - Analyst***

Can you take dividends out of Imperial Tobacco Canada while the Quebec case is not resolved?

Jerome Abelman ***- British American Tobacco plc – Director, Legal & External Affairs and General Counsel***

The payment of dividends is a matter for the Board of Imperial Tobacco Canada.

Adam Spielman – ***Citi - Analyst***

(inaudible)

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

Canada (inaudible) is largely being used to pay the money into the escrow account.

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

But you could have dividends, yes. If the Board decides that they have enough cash to pay dividends then the answer is yes. I think that was your question? Thank you, Jerry.
You had a question. Can I just go for others, and then go for you, James?

Adam Spielman– ***Citi - Analyst***

So the real question, or the other question, can you give us a little bit more detail about TaO? I think you said in the statement it's pretty much everywhere apart from one or two markets. I was just trying to think about how the cost savings here. My understanding is there will be efficiencies that come in, in the next couple of years. Is there any way you can quantify that, whether the 160 bps points underlying margin will continue? And that's really the question. Thank you.

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

Okay. We have deployed SAP globally in the largest and fastest deployments ever done. That's all deployments, I have to say. It's on time, it's on budget, and it's on spec, so that in itself sets it apart from most SAP deployments, I'd say.

The speed of deployment of SAP is tremendous news. We just went live in South Africa and Brazil a couple of weeks ago. But obviously, we've then got to stabilize the system, and the savings comes through after that. I'm confident that even though we've deployed SAP we're not actually necessarily reaping all the benefits of it yet, so I think the savings from SAP will continue to flow through.

This year, whilst we finish the first deployment we're going round and sweeping up all the other countries that weren't part of the original plan.
So we've got to do TDR, obviously; we've got to do Indonesia, we haven't done, which will be a really big deployment this year. So there's more SAP to come. And once SAP is deployed there are more savings to come from SAP, potentially.

James Bushnell – ***Exane BNP Paribas - Analyst***

Two questions, actually. The first one is linked, which is of the 160 basis point margin expansion in2015, can you give us a feeling for how much of that was, let's call it, organic-organic versus SAP-driven cost savings?

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

Well, we've always said about half of the margin improvement comes from pricing, and about half comes from cost savings. I don't think there's any reason to assume that was particularly different last year.

James Bushnell – ***Exane BNP Paribas - Analyst***

Secondly, on Japan, obviously a market where we've had, let's say, irregular pricing over the years where the market leaders just moved, okay, not in their whole portfolio, but on half of it. How do you think about the pricing environment in Japan now, obviously, with regard to your own portfolio there?

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

Well, we don't see prices moving for JT's competitors. They have 10 cents in Mevius, and we are not going to follow it. The brand reposition just 10 cents, with not only us but other competitors in the market of JT are not moving. I think that the price environment in Japan is pretty dependent on excise increase, because you usually take prices there when you have an excise increase. And probably, your bet is as good as mine, and when you have one. They keep saying that at the end of this year, or maybe next year, so we don't know. As you know, it's difficult to move prices there without government agreement. And you can reposition a brand, but then you have to have government agreement to do the repositioning. So that's not our intention to move brands, or to move price.

Owen Bennett – ***Nomura - Analyst***

And sorry to labor the point on margins, but I know you said 50 basis points to 100 basis points is going to be challenging this year. But given current rates, would you expect margins to be down again, or could you commitment to them being positive?
And then secondly, given the aggression of some of your competitors rolling out their heat-not-burn product, I know you said second half of this year for yours, Ben, but could you be a bit more specific and maybe how many markets you intend to be in by the end of the year? Thanks.

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

Look, it's late February. If I knew where FX rates were going to go for the rest of the year, I wouldn't be sitting here on a cold February morning in London; I'd be sitting on a yacht in the Caribbean somewhere. So it's hard to judge, yes.

So the current estimate on transactional FX rate is 7%. Some of those costs we can hedge, but obviously hedging costs, things like rouble/dollar hedging costs are very expensive. So you can't hedge all of your cost base.

So one of the reasons margins were a little bit worse in the second half of the year than we thought was the fact that exchange rates went from a 7% translational hit to a 16% translational hit in the second half.

Now, I've no idea whether sterling's going to strengthen or weaken. If sterling strengthens, it's not necessarily a particular help to transactional FX, but it's a big help for translational FX. What affects transactional FX is more the strength of the dollar and the euro against the strength of market currencies like the rouble, the real, the Canadian dollar, the Australian dollar, those sorts of exchange rates. So it's a very big and difficult mix to pull out.
So, we are hopeful. We'll certainly grow underlying margins this year; whether it's enough to offset the transactional FX rate, we'll just have to wait and see. It's very, very early in the year to be able to predict that, I'm afraid.

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

On the tobacco heating products, let me start by saying that we have two platforms. One is the electronic tobacco device that has been launched, as I said. It was launched six weeks ago in Romania, and the results are encouraging. So this is one of the platforms that we have: that has been launched already. I think that was probably went flat. So it went six weeks ago. It's doing very well, encouraging. And we intend to expand this to Romania during the year; and then, we will see how we expand it to other markets. Because the initial results are very encouraging, and the volume's a little bit higher than we were expecting. We thought this was going to be a little bit slower. So we need to see manufacturing capabilities, and so on, so forth, but we should expand it, until the end of the year, to other markets as well.

And the second one is platform two, is the electronic heating system. And this one will be at the end of this year, the launch. We are still fine-tuning the product, the manufacturing capabilities. We think that this will take the product to another level. And we are already testing the product in our R&D, and we think that it should go for one or two markets at the end of this year; and then, expansion 2017.

But let me tell you that the way that BAT approaches NGP is we look at these under the three categories, not just one. We are doing a lot in THP, but I think that you should not underestimate the work that has been done in the vapour area, in which we think that has a fantastic potential. And we are already in six markets, doing extremely well, as we highlighted here.

We have new products coming to the market. We bought CHIC; that has 65% market share in Poland with outstanding training capabilities. We think that it can expand very fast our portfolio. They have some good products as well, and we are expanding this very fast. We are not going faster, because we wanted to have a controlled geographic spread. We don't want it to go too fast. We are going for six markets in the first half of the year, evaluate, and probably do some more markets in the second half of the year.

And the third category is the medicinal licensed products. We are the only company in the world that has got one with Voke, approved by MHRA.
We are also fine-tuning the manufacturing capability; should come to the market during this year.
So is an approach that look at the three categories; not only THP. But THP, one of those was launched already. The second one is going to be the end of this year. Okay?

Stephanie D'Ath – Bank of America Merrill Lynch – Analyst

Following up on Voke, can you please give us the initial consumer reaction because, obviously, (inaudible) the way you distribute it [in your] product? And more general for next generation products, do you see margins once it's scaled up [or it gets bigger potentially] as high as for combustible tobacco?

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

You are talking about Voke, or Vype?

Stephanie D'Ath – Bank of America Merrill Lynch – Analyst

Voke, the medicinal products.

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

The medicinal, we haven't launched it yet. We have tested it, and the test is very positive. We have a small pilot, and the initial results are very positive. We just want -- we think that it's going to be a product that is going to be very well received. And we want to guarantee that when you go to the market we have enough capabilities in terms of volume to go not only for UK, but for other markets as well at the same time. So I cannot talk about that, but as soon as we launch it I will come back.

Stephanie D'Ath – Bank of America Merrill Lynch – Analyst

Will it be retailed in pharmacies (inaudible)

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

Sorry?

Stephanie D'Ath – Bank of America Merrill Lynch – Analyst

It has to be prescribed by a doctor, right?

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

No, it doesn't need to be prescribed by doctor. It can be prescribed by doctor. We can end up having NHS paying the product for us; that's a first for tobacco industry.

The margins, of course it's not going to be the same margins of tobacco. The whole vapour, THP, and the medicinal tobacco products they all have a lower margins. But there'll be lower margin percentage terms. It will be around 20% to 25%. I cannot be precise now. But in absolute terms, be similar to cigarettes, because it starts with a higher price. So, in absolute, it's not going to be so different per mille, the same comparison; but relative, percentage wise, it will be more of an over-the-counter medicine margins, 20%, 25%.

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

You've got to remember that in tobacco, if the consumer price is 100, 70 disappears as excise, and we measure margin on the remaining 30. But, of course, with a licensed medicinal product, if it sells for 100, you measure the margin on the 100. So a 15% margin on 100 is the same as a 50% margin on the 30. It may start to be taxed at some point, that may be good thing.

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

The licensed medicinal products, we don't believe so, that's going to be taxed. If you're asking the question about vapour and THP, yes, I think that vapour should be taxed, and we are recommending to regulators to be taxed. We want to be taxed according to the risk continuum. So we don't pay the same tax as tobacco, should be lower tax. So we should let the risk continuum for the consumers and taxed in a different tax rate, so we are engaged with regulators trying to convince them to do that.

Fulvio Cazzol - *Goldman Sachs* - Analyst

Just a quick one from me. I've noticed Americas had a very strong profit growth performance, 11% at constant currency. I was wondering, do hyper-inflation markets actually make a big impact on that; i.e., what was the growth excluding Venezuela and Argentina?

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

I'm not going to quote figures excluding particular markets. If we did inflation accounting for Venezuela, which we don't do in the constant currency results, it would have taken profits down by 18 million.

Jon Leinster –Berenberg - Analyst

Just a couple of questions. First one, just following on from your comments about regulation, obviously, one of your competitors is trying to get modified risk status from the the FDA. Are you talking to regulators in that way? And is their proposal on an industry basis, or just for their specific product, are you looking at modified-risk status?

Secondly, just a quick one on CapEx. Obviously, with TaO has now been effectively rolled out you're saying the gross CapEx is going to be broadly similar. Is that all down to NGP? And would we expect, therefore, that to come down quite quickly thereafter?

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

I go for the first question. It's just for their products, because we have to do product by product, it cannot be by category. We are analyzing our options now, if we should follow the same route or not. It takes years and years and years to get the approval, and files of research to get there. So we are preparing out case, and we'll decide if we should go for the same route or not in the coming months.

Ben Stevens ***- British American Tobacco plc – Finance Director***

Yes, CapEx will be higher this year than last year. Remember, we haven't finished the roll out of TaO. We've got to do Indonesia, we've got to do Croatia this year, so we've got all of those costs coming through. We've got NGP costs in terms of preparing for the launch of Voke. And we've got operations costs, where we've been keeping Alan pretty tightly bound down over the last few years while we pay for TaO. But he's finally escaped and we'll be spending some more money in terms of driving the CapEx that comes with innovation, which, of course, is the start of the share growth for all of our brands.

So you'll see CapEx, it depends a bit on exchange rates, but around the GBP700 million, maybe, next year, gross.

Adam Spielman - Citi - Analyst

I'd like to ask a question about mix. As I look at results straightaway, you're growing really fast in Rothmans, and that suggests down trading. But you've kept on saying, a couple of times, you're doing very well in premium, as well. I was just wondering if you could somehow -- if I think about BAT as a whole is premium -- how is it working? Is premium becoming a larger percentage of BAT? Or is value-for-money becoming a larger percentage of BAT?

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

Let me try to explain. If you go back up to two years ago, we always have the pricing moving extremely well. And you have the downside offset by geographic mix, because, as you know, we grow faster in emerging markets, which is part of our strategy. We think that is a sound strategy for the future. Then, we had some tailwinds on portfolio mixes as well. But last year, we had some down trading in the world because of the challenging economic conditions; and overall, we had some headwinds on portfolio mix as well. So that's the first part of the answer.

Adam Spielman - Citi - Analyst

2015?

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

2015. We had some headwinds on portfolio mix as well, because we see a lot of down trading around the world. You see in places like, for example, Russia, UK, Switzerland, Italy, Germany, Australia, Japan, we saw some down trading happening. So there was a decrease in down trading.

And they play that -- the role that Rothmans play in our portfolio is that the value-for-money segment was the one that was growing. We were not so strong there. We had been able to deliver a product with fantastic quality, we've got lot of innovations, and that consumers are loving. So that's why the brand is growing so fast, because it is in a segment that is growing; and that brand is doing fantastically well on top of this.

What I mention about the premium segment is that inside the premium segment has declined a little bit this year. BAT grew 150 basis points, despite the fact that the GDBs grew 120. Why? Because we have some premium brands that are not GDBs across the world, as you know, as we call the shadow brands in the past, like duMaurier in Canada, which Dunhill is not our trademark there; in Canada is a shadow brand of Dunhill, is doing well in the premium segment. So our share in the premium segment is growing 150 basis points. But because the segment is declining, overall there was small headwind in portfolio mix, which, up to 2014, we had always a tailwind.

So how's it going to play out in 2016 depends a lot on how much you are going to grow your premium portfolio.

We are doing very well. We are leaving 2015 with a very good share growth behind our brands. Our premium brands are growing very fast. You saw what we talked about brands, for example, like Dunhill, in places like Russia -- sorry, in places like Indonesia, in which five years' ago 10% of the portfolio was behind Dunhill and Club Mild, that was a strategic brand: now it's 90%. So it just shows that you can have a better share; it shows that the brands are growing very well. Dunhill, who is the only international brand that's playing in the kretek segment, and was able to establish itself in the kretek segment has been Dunhill. We had in Dunhill Mild kretek, now have Dunhill Full Flavour. We launched the one year and two months' ago 2.4 share in Dunhill; you know how hard it is to get there. So it's doing very well.

So it depends a lot if you are going to have a headwinds in terms of portfolio mix next year, or not; it depends a lot over the performance of the premium brand. But they are doing extremely well. I hope that they keep doing extremely well. We enter the year in a very good and strong position.

I hope that I encapsulate your question.

Chas Manso –Societe Generale - Analyst

Yes, could you talk a bit about momentum and drivers of momentum.

You accelerated your organic sales growth through the year. I think Q4 comes out with volumes up 2% and organic sales growth up 8%, 9%. So, first of all, are there any kind of funnies in there, any kind of pre-excise loading? So how clean is that number? And probably, could you give us a bit more colour on where that acceleration of growth is happening for you, and how sustainable in to 2016 is it?

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

Okay, regarding Q4, there is no funny there. Using your expression.

Ben Stevens - British American Tobacco PLC - Finance Director

Yes, TDR, you've got a (multiple speakers) of about 40 million turnover off TDR.

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

TDR, of course, but is not something that will be in numbers for 2016. But eliminating TDR, was a strong quarter 4. But I keep saying, and I said at the interim, during the first half, the second half it was going to be stronger, remember that, because of, depends on your marketing investment, first half, second half. And we had a lot of launches in the first half. We had a lot of investments in NGP in the first half to have the benefits throughout the year. And the same shift you are going to see in 2016, by the way. So we are -- we had a lot of upfront investment. I don't think that you can read it too much on the quarter. But there is no loading there, there is no funny number, the numbers are very clear. We want to get to -- BAT, how it's come to the year, very clean, because you want to have a very strong next year. So we're not going to jeopardise next year with unloading, so it never happens with us. We have some small loadings at the end of 2014, 2015 because of TaO, so markets that were introducing TaO in January, for example. We had some loading in prior years, but very small numbers that is not possible to notice.

Also, Q4 2015 was very strong, because Q4 2014 was a weak quarter. So as comparable base, if you compare 2015 against 2014, 2014 was very weak, and then it looks like that 2015 was stronger than it was.

But the numbers are very clean. We come for 2016 from the volume side, from the share side with strong numbers; and we are working very hard to keep like that, I can guarantee this to you.

Mike, can I have one more question? We are out of time? Is there any burning questions you may ask? No? (laughter)
So, guys, thank you for coming, and appreciate -- you have a question, Adam? No? Okay. Thank you for coming. Appreciate that. Thank you.