

**IMPERIAL TOBACCO GROUP PLC**  
**INTERIM MANAGEMENT STATEMENT FOR THE NINE MONTHS ENDED 30 JUNE 2014**

**CONTINUED STRATEGIC PROGRESS AND UNCHANGED FULL YEAR OUTLOOK**

Imperial Tobacco today updates the market on trading for the nine months to 30 June 2014.

<b>Overview</b>		<b>9 months to 30 June 2014 Reported</b>	Reported Change	Underlying Change
Growth Brands volume	bn SE	91.7	-1%	+3%
Tobacco net revenue	£m	4,752	-1%	+2%

All comments, unless otherwise stated, relate to year to date underlying performance, which specifically excludes the impact of the stock optimisation programme. All net revenue development is underlying performance reported at constant currency.

**Enhancing quality of growth**

- Growth Brands: outperforming the market with volume growth of 3% and net revenue up 7%
- Specialist Brands: supported the total tobacco portfolio with net revenue gains of 3%
- Growth Markets: further good progress with tobacco net revenue growth of 8%
- Returns Markets: resilient in tough market conditions with tobacco net revenue down 1%

**Stock optimisation programme reducing trade inventories**

- Improving supply chain effectiveness through our continued stock optimisation programme

**Cost optimisation programme on track**

- Efficient management of cost remains a priority with our cost optimisation programme on track to deliver incremental savings of £60 million for the year

**Full year outlook unchanged**

- Our guidance for the full year continues to be modest adjusted earnings per share growth at constant currency with dividend growth of at least 10%

**Alison Cooper, Chief Executive, said:**

"I'm pleased with the continued improvement in the quality of our sales growth. The work we are doing in prioritising our brand portfolio is reflected in the strong performance of our Growth Brands, which are consistently growing ahead of the market and gaining share. Brand migrations support our quality growth ambitions, and following the success of this year's programme, we're now implementing further migration initiatives."

"Whilst conditions are still tough in a number of our markets, our footprint provides balance and we're generating good results in Growth Markets, whilst demonstrating on-going resilience in our Returns Markets."

"We continue to focus on generating quality sustainable growth in our core tobacco business, whilst exploring new areas for long-term revenue growth. Our proposed acquisition of US assets will make us a stronger competitor in a significant profit pool and key Growth Market, whilst the recent IPO of Logista forms part of our commitment to capital discipline; all focused on delivering sustainable returns for shareholders."

**BUSINESS REVIEW**

**Overview**

The market as a whole has slightly improved in the past quarter, with the market size decline for our footprint now running close to 4% (excluding Iraq), but conditions are still tough in a number of our key markets. Although we have seen a modest deceleration in the rate of market decline in parts of Europe, this has been offset by a significant deterioration in the Russian market and the impact of the turbulent situation in the Middle East.

Reflecting the progress of the stock optimisation programme, total reported volume was down 8%, whilst underlying total tobacco volume performance was down 5%, broadly in line with the industry. Strong price/mix of 7% resulted in net revenue growth of 2%. Price/mix has improved in Growth Markets and remains strong overall in Returns Markets.

Together, our Growth Brands and Specialist Brands now account for 53% of our reported total tobacco net revenue (an improvement of 230 basis points).

### **Growth Brands Delivering High Quality Growth**

Growth Brands continue to grow market share and outperform the market with volume growth of 3% and tobacco net revenue up 7%. A number of new market launches added to the expansion of Parker & Simpson particularly in Eastern Europe, JPS was particularly strong in Australia and UK, and Fine performed well in Asia. Gauloises Blondes and Davidoff were affected by disruption in the Middle East. Gauloises fine cut tobacco was launched in Morocco and France and initial results are positive. Davidoff continues to perform well in Greece, the Balkans and Taiwan, with West adding to the performance in Asia. USA Gold continues to benefit from a focused strategy in 19 states in the USA, supported by the launch of Glide Tec in the quarter.

Growth Brands were 43% of reported total tobacco volume in the year to date (up 280 basis points on the equivalent period last year) and generated 40% of reported total tobacco net revenue (up 220 basis points).

Our brand migration activities have progressed well. Twelve test migrations were planned for FY14, and the early success of these means we are now accelerating further brand migrations, a number of which will begin in the final quarter.

### **Specialist Brands Continue To Grow Revenues**

Our Specialist Brands grew net revenue by 3% with strong performances from our mass market cigar brand Backwoods in the USA, Skruf in Norway and Sweden and our premium cigar range, offset by weaker sales of our fine cut tobacco in Southern Europe.

Specialist Brands were 13% of reported total tobacco net revenue in the year to date (up 20 basis points).

### **Growth Markets Supporting Growth Momentum**

Tobacco net revenue increased by 8%, with particularly strong volume and net revenue performance of Growth Brands, up 9% and 15% respectively. Growth has been encouraging in a number of Asian markets and in the USA we continue to deliver net revenue growth and share improvement in our targeted states. In several Middle Eastern markets, sales have been disrupted by the deteriorating security situation. Market size declines accelerated in Russia following regulatory and excise changes, however the portfolio actions we have taken are delivering improved performance. Excluding Russia, overall market share for our Growth Markets has increased year on year.

### **Returns Markets Remained Resilient**

Tobacco net revenue decreased by 1%, reflecting the tough market backdrop in a number of countries. In Returns Markets North strong price/mix of 8% helped tobacco net revenue grow by 2% with Australia and Germany continuing to perform well, offsetting market pressures in the UK. In Returns Markets South, tobacco net revenue declined by 4%, impacted by further market size declines in France, Spain and Morocco.

### **Logistics**

In June we announced our intention to seek a partial IPO of Logista on the Spanish Stock Markets. Subsequent to the Q3 period, we sold approximately 30% of Logista for a consideration of €518m.

### **Fontem Ventures**

Fontem launched Puritane as a healthcare channel brand in February in partnership with Boots, and following marketing activities in the third quarter, sales have growing momentum.

### **Acquisition of US Assets**

On 15 July, we announced that we had entered into an agreement with Reynolds American Inc. to acquire a number of brands and assets currently owned by Reynolds American Inc. and Lorillard Inc. for a consideration of \$7.1bn, following the proposed acquisition of Lorillard Inc. by Reynolds American Inc. The transaction is expected to complete in 2015. A circular setting out further details of the transaction, including the resolution seeking approval, is expected to be sent to shareholders in due course.

### **Exchange Rates**

Although earnings continue to be impacted by foreign exchange, there is relative stability from our footprint. At the half year, the Company indicated that currency translation had negatively impacted adjusted operating profit by 3% and adjusted EPS by 4%. Since the half year, sterling has strengthened relative to the US dollar and Euro such that average year to date exchange rates for the translation of overseas earnings are almost 5% adverse to last year. If exchange rates stay the same in the final quarter, the full year impact on operating profit is expected to be close to 5%.

## Financial Position

There has been no material change in the Company's financial position since the half year. Capital discipline continues to be a priority, and the proceeds of the partial sale via IPO of Logista will be used initially to reduce the Company's indebtedness. On 15 July, we suspended our share buyback programme having purchased 14.16m shares in the year to date at a cost of £339m.

## Full Year Outlook

At the time of the Full Year 2013 results in November, we indicated that a reasonable working assumption for Financial Year 2014 was for modest growth in EPS at constant currency rates accompanied by at least a 10% increase in dividend. There has been no change in this expectation.

## OTHER INFORMATION

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## Conference Call

Imperial Tobacco Group PLC will be holding a conference call for investors and investment analysts with senior management following the publication of our Interim Management Statement on 19 August 2014. The call will be hosted by Alison Cooper, Chief Executive, Oliver Tant, Chief Financial Officer and Matthew Phillips, Corporate Affairs Director and will commence at 09:00am BST. A replay of this call will be available for one week.

## Call-in Details

UK number\*: +44(0)20 3427 1907  
Conference Call ID: 2673565  
Start time: 09:00 BST (please dial in 10 minutes before start time)  
Conference Title: Imperial Tobacco Interim Management Statement  
Leader: Alison Cooper

*\*For telephone numbers from all other geographies and replay numbers, refer to final page of this release.*

## Notes to Editors

Imperial Tobacco Group PLC is a multi-national tobacco company, with international strength in cigarettes and world leadership in fine cut tobacco, premium cigars, rolling papers and tubes. The Group has 45 manufacturing sites and around 35,000 employees and operates in over 160 markets.

In 2013, the Company realigned its geographic footprint into Growth Markets and Returns Markets and now manages markets based on the strategic role they play, rather than their geographic proximity.

Growth Markets are characterised by large profit and/or volume pools. We tend to have shares below 15 per cent and see considerable opportunities for share and profit growth over the long term. Our main Growth Markets include the USA and selected markets in the EU, Eastern Europe, Asia, and the Middle East. We measure the performance of our Growth Markets against market share and revenue metrics and our quality of growth by the progress our Growth Brands are making.

In Returns Markets we have relatively large shares, mostly above 15 per cent. Our objective is to maximise profit, whilst actively managing our market share. Our main Returns Markets include UK, Germany, and other markets in the EU, Australia, Eastern Europe and Africa. We measure the performance of our Returns Markets against market share and revenue metrics and our quality of growth by the progress our Growth Brands are making.

## Cautionary Statement

Certain statements in this announcement constitute or may constitute forward-looking statements. Any statement in this announcement that is not a statement of historical fact including, without limitation, those regarding the Company's future expectations, operations, financial performance, financial condition and business is or may be a forward-looking statement. Such forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those projected or implied in any forward-looking statement. These risks and uncertainties include, among other factors, changing economic, financial, business or other market conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in this announcement. As a result, you are cautioned not to place any reliance on such forward-looking statements. The forward-looking statements reflect knowledge and information available at the date of this announcement and the Company undertakes no obligation to update its view of such risks and uncertainties or to update the forward-looking statements contained herein. Nothing in this announcement should be construed as a profit forecast or profit estimate and no statement in this announcement should be interpreted to mean that the future earnings per share of the Company for current or future financial years will necessarily match or exceed the historical or published earnings per share of the Company. This announcement has been

prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this announcement is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

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Singapore	+656622 1941
South Africa	+2711 019 7075
Spain	+3491 114 6583
Sweden	+46(0)8 5033 6539
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#### Replay Numbers (available for one week from noon today)

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